



# **Cedar Falls Utilities**

**Electric • Gas • Water • Communications**

**Financial Statements**

**For The Years Ended  
December 31, 2006 and 2005**

MUNICIPAL ELECTRIC, GAS, WATER AND COMMUNICATIONS UTILITIES  
OF THE CITY OF CEDAR FALLS, IOWA

(Component Units of the City of Cedar Falls, Iowa)

Table of Contents

Financial Statements

Municipal Electric Utility

Independent Auditors' Report	
Management Discussion and Analysis.....	1
Balance Sheets.....	5
Statements of Revenues, Expenses and Changes in Net Assets.....	7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	10
Report of Internal Control over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards Schedule of Findings, Year Ended December 31, 2006	

Municipal Gas Utility

Independent Auditors' Report	
Management Discussion and Analysis.....	1
Balance Sheets.....	4
Statements of Revenues, Expenses and Changes in Net Assets.....	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	9
Report of Internal Control over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards Schedule of Findings, Year Ended December 31, 2006	

Municipal Water Utility

Independent Auditors' Report	
Management Discussion and Analysis.....	1
Balance Sheets.....	4
Statements of Revenues, Expenses and Changes in Net Assets.....	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	9
Report of Internal Control over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards Schedule of Findings, Year Ended December 31, 2006	

Municipal Communications Utility

Independent Auditors' Report	
Management Discussion and Analysis.....	1
Balance Sheets.....	5
Statements of Revenues, Expenses and Changes in Net Assets.....	7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	10
Report of Internal Control over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards Schedule of Findings, Year Ended December 31, 2006	



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Cedar Falls Utilities – Municipal Electric Utility

We have audited the accompanying balance sheets of the Municipal Electric Utility of Cedar Falls, Iowa (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2007, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 1 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

April 24, 2007  
Dubuque, Iowa

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

The following discussion and analysis of the Municipal Electric Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the year ended December 31, 2006 and 2005. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

- The Utility's net assets increased as a result of this year's operating income and non-operating revenues. Total assets at year-end were \$125,539,882 and total liabilities were \$48,291,412 resulting in net assets of \$77,248,470. In 2005, total assets were \$122,207,655 and total liabilities were \$50,607,915 resulting in net assets of \$71,599,740.
- In 2006, operating revenues increased 8.2% to \$32,928,617 from \$30,429,628, while operating expenses increased 13.4% to \$29,173,025 from \$25,723,745.
- In 2006, the Utility had operating income of \$3,755,592 compared to \$4,705,883 in 2005.
- The Utility delivered approximately 427,500,000 kilowatt hours (kWh) of electricity to its retail customers in 2006 as compared to approximately 419,700,000 kWh in 2005.

**Overview of the Financial Statements**

Management's discussion and analysis (MD&A) serves as an introduction to the financial statements, and the MD&A represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

The balance sheets include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

The statements of revenues, expenses and changes in net assets present the results of the Utility's activities (revenues and expenses) over the course of the fiscal year and can provide information about the Utility's recovery of its costs. Retail rates to purchase electricity are based on rates established by the Board of Trustees based on operating costs, debt service requirements, and anticipated capital needs. A fundamental objective of this rate model is to provide adequate revenue to cover all expenses.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities. This statement provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

**Condensed Financial Information**

The following condensed financial information serves as the key financial data and indicators for management, monitoring, and planning.

**Condensed Balance Sheet Information**

	2006	2005
Current assets	\$ 29,390,871	\$ 25,345,704
Capital assets, net	82,856,073	68,011,047
Other non-current assets	13,292,938	28,850,904
Total assets	<u>\$125,539,882</u>	<u>\$122,207,655</u>
Current liabilities	\$ 10,560,136	\$ 7,560,768
Non-current liabilities	1,519,632	5,433,937
Long-term debt	36,211,644	37,613,210
Total liabilities	<u>\$ 48,291,412</u>	<u>\$ 50,607,915</u>
Invested in capital assets, net of related debt	\$ 51,852,314	\$ 44,182,925
Restricted	4,240,916	4,235,500
Unrestricted	21,155,240	23,181,315
Total net assets	<u>\$ 77,248,470</u>	<u>\$ 71,599,740</u>

**Condensed Revenues, Expenses and Changes in Net Assets**

	2006	2005
Sales of electricity	\$31,719,334	\$29,052,465
Other	1,209,283	1,377,163
Total operating revenues	<u>32,928,617</u>	<u>30,429,628</u>
Fuel and Purchased Power	13,326,291	10,956,486
Operation and maintenance	6,602,250	6,058,354
Depreciation and amortization	2,754,607	2,647,776
Services and administrative	6,489,877	6,061,129
Total operating expenses	<u>29,173,025</u>	<u>25,723,745</u>
Operating Income	<u>3,755,592</u>	<u>4,705,883</u>
Interest income	1,555,451	1,175,682
Other, net	337,687	446,342
Total non-operating revenues (expenses)	<u>1,893,138</u>	<u>1,622,024</u>
Change in net assets	5,648,730	6,327,907
Net assets, beginning of year	<u>71,599,740</u>	<u>65,271,833</u>
Net assets, end of year	<u>\$77,248,470</u>	<u>\$71,599,740</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

**Financial Analysis**

Current assets increased 16.0% in 2006 primarily as a result of an increase in current investments due to a decrease in non-current investments because dates of maturity are now one year or less and an increase in local fuel inventory of \$2,935,506 due to an increase in the average cost per ton of \$28.28 even though 2006 receipts were 9,666 tons less than 2005.

Other non-current assets decreased 54.7% in 2006 primarily due to investments maturity dates becoming one year or less requiring moving them to current. Other non-current assets also include the long-term note receivable from the Municipal Communication Utility. The total outstanding balance at December 31, 2006 was \$2,163,090.

Current liabilities increased 39.7% in 2006 primarily as a result of accounts payable increasing by approximately \$2,871,275 due primarily to the \$4,040,000 in deferred construction costs (retainage) for CB4 coming due within one year or less and thus being moved from non-current to current liability classification which decreased non-current liabilities by 72.0% in 2006.

Long-term debt decreased 3.7% primarily due to the payment of principal and amortization of discount of over \$1,401,566 during 2006.

Sales of electricity increased 9.2% in 2006 primarily due to the increase in retail kWh sales of 1.9 % (7,747,208 kWh). Sales for resale decreased \$564,359 or 2.5 % due to CFU having to buy more energy off the market as CB3, Neal 4 and Streeter had unplanned outages which means there was less energy to sell to the wholesale market.

Other operating revenues decreased 12.2% in 2006 primarily as a result of the end of a several year contract for gas turbine sales with MidAmerican Energy. This decrease has been offset somewhat due to the new Network Transmission Services agreement with MidAmerican Energy in which CFU pools its transmission assets with other utilities and receives a fee from transmission usage as well as paying a fee for using transmission. In 2006, transmission revenue was \$214,249.

Fuel and Purchased Power increased 21.6% due to the higher cost to purchase power that occurred in 2006. As mentioned previously, CFU purchased nearly 51.0 % more off the market in 2006 over 2005 because all generation units experienced planned and unplanned outages throughout the year. These outages required CFU to buy off the market at prices which were not always as favorable as desired. The change in the fuel cost to be recovered from customers represents an additional expense or reduction in expense. The amount of the change in fuel cost to be recovered from December 31, 2005 to December 31, 2006 is an increase in expense of approximately \$573,909.

Operation and maintenance expenses increased 9% in 2006 due to several factors. The Utility entered into a Network Transmission Agreement with MidAmerican Energy late in the year which accounts for the increase of 21.8 % in transmission costs in 2006 compared to 2005.

Administrative and general expenses increased 9.3% in 2006 primarily due to increases of \$350,189 in employee insurance and benefit costs, \$38,921 in property insurance and \$52,529 in maintenance general plant.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

Other non-operating revenues increased 2.8% in 2006 primarily due to a \$700,627 increase in interest income related to Utility investments and \$174,324 increase in miscellaneous non-operating income largely from the decrease in Tax Increment Financing (TIF) monies received from the City of Cedar Falls.

**Capital Assets and Debt Administration**

Net capital assets represent 66.0% of total assets for the Utility. Net capital assets increased 21.8% from the prior year due to distribution system additions and Council Bluffs Energy Center Unit 4 construction work in progress. Additional detail on the change in capital assets can be found in Note 4.

During 2002, the Board of Trustees approved the joint ownership agreement for the construction and operation of the Council Bluffs Energy Center Unit 4. The Utility will become a 2.02 % owner which is approximately 16 megawatts. Our total estimated cost to construct is approximately \$25 million and operation is expected to begin in June 2007. Completed construction related to this project at December 31, 2006 is \$3,289,599. Construction work in progress related to this project at December 31, 2006 is \$20,200,081.

The Board of Trustees authorized the issuance of revenue bonds in an amount not to exceed \$35,000,000 for electric system improvements and extensions, including the construction of generation and transmission assets. On December 18, 2003 \$10,000,000 of revenue bonds were issued for the first phases of the projects. On July 13, 2005 \$24,975,000 of revenue bonds were issued for the final phases of the electric system improvements and extensions and the construction of generation and transmission assets. Additional detail on the issuance of revenue bonds can be found in Note 5.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets  
December 31, 2006 and 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 122,123,033	\$ 107,789,642
Less accumulated depreciation	<u>64,533,344</u>	<u>62,354,265</u>
	57,589,689	45,435,377
Construction work in progress	<u>25,266,384</u>	<u>22,575,670</u>
Net capital assets (note 8)	<u>82,856,073</u>	<u>68,011,047</u>
Noncurrent assets:		
Noncurrent investments: (note 3)		
Restricted (note 2)	9,765,873	17,022,250
Unrestricted	968,300	8,950,390
Note receivable (note 9)	<u>2,163,090</u>	<u>2,473,090</u>
Total noncurrent assets	<u>12,897,263</u>	<u>28,445,730</u>
Current assets:		
Cash and cash equivalents (note 1)	347,797	5,692,717
Investments (note 3)	16,081,606	7,952,227
Receivables:		
Customer accounts, less allowance for doubtful		
accounts of \$55,700 in 2006 and \$33,992 in 2005	3,368,607	3,794,093
Interest (note 9)	514,914	477,615
Current installment of note receivable (note 9)	310,000	310,000
Other	533,037	778,890
Inventories:		
Fuel	5,443,137	2,507,631
Material and supplies	1,232,606	864,436
Prepayments and other	281,068	434,468
Restricted - cash (note 2)	<u>1,278,099</u>	<u>2,533,627</u>
Total current assets	<u>29,390,871</u>	<u>25,345,704</u>
Deferred costs:		
Deferred costs	<u>395,675</u>	<u>405,174</u>
Total assets	<u>\$ 125,539,882</u>	<u>\$ 122,207,655</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets  
December 31, 2006 and 2005

<u>Liabilities</u>	<u>2006</u>	<u>2005</u>
Long-term debt, less current installments (note 5)	\$ 36,211,644	\$ 37,613,210
Current liabilities:		
Accounts payable	7,080,912	4,209,637
Reserve for surplus declaration (note 9)	1,200,000	1,200,000
Accrued wages and vacations	487,106	462,703
Accrued interest	147,381	152,855
Other accrued expenses	184,737	140,573
Current installments of long-term debt (note 5)	1,460,000	1,395,000
Total current liabilities	<u>10,560,136</u>	<u>7,560,768</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	430,150	295,350
Other liabilities (note 5)	1,089,482	5,138,587
Total noncurrent liabilities	<u>1,519,632</u>	<u>5,433,937</u>
Total liabilities	<u>48,291,412</u>	<u>50,607,915</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	51,852,314	44,182,925
Restricted - bond indentures (note 2)	4,240,916	4,235,500
Unrestricted	21,155,240	23,181,315
Total net assets	<u>77,248,470</u>	<u>71,599,740</u>
Total liabilities and net assets	<u>\$ 125,539,882</u>	<u>\$ 122,207,655</u>

See accompanying notes to financial statements.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Revenues, Expenses and Changes in Net Assets  
Years ended December 31, 2006, and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues: (note 5)		
Sales of electricity:		
Residential	\$ 12,719,426	\$ 11,581,925
Large industrial & commercial	2,207,015	1,861,720
Small industrial & commercial	11,803,195	10,357,875
Governmental (note 9)	3,139,586	2,851,303
Sales for resale	1,660,945	2,225,304
Interdepartmental	189,167	174,338
Total sales of electricity	<u>31,719,334</u>	<u>29,052,465</u>
Other operating revenues	<u>1,209,283</u>	<u>1,377,163</u>
Total operating revenues	<u>32,928,617</u>	<u>30,429,628</u>
Operating expenses:		
Production and generation:		
Fuel	6,713,319	6,576,700
Purchased power	6,612,972	4,379,786
Other	3,919,194	3,381,122
Transmission	934,995	767,364
Distribution	1,748,061	1,909,868
Depreciation and amortization	2,754,607	2,647,776
Customer accounts	712,511	589,551
Customer service and information expenses	398,419	363,463
Sales	67,297	73,473
Administrative and general (note 9)	4,766,396	4,361,287
Taxes other than income taxes	545,254	673,355
Total operating expenses	<u>29,173,025</u>	<u>25,723,745</u>
Operating income	<u>3,755,592</u>	<u>4,705,883</u>
Nonoperating revenues (expenses):		
Interest income (note 9)	1,555,451	1,175,682
Net increase (decrease) in the fair value of investments	161,691	(159,166)
Miscellaneous revenue (expense), net (note 9)	981,166	966,826
Interest expense on long-term debt	(1,768,358)	(1,199,623)
AFUDC (note 1)	965,251	835,002
Interest income (expense) on security deposits	(2,063)	3,303
Total nonoperating revenues (expenses)	<u>1,893,138</u>	<u>1,622,024</u>
Change in net assets	<u>5,648,730</u>	<u>6,327,907</u>
Net assets, beginning of year	<u>71,599,740</u>	<u>65,271,833</u>
Net assets, end of year	<u>\$ 77,248,470</u>	<u>\$ 71,599,740</u>

See accompanying notes to financial statements.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows  
Years ended December 31, 2006, and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 34,519,792	\$ 29,893,733
Cash paid to suppliers	(26,283,295)	(17,377,146)
Cash paid to employees	(2,935,662)	(2,927,097)
Payment in lieu of taxes to the City of Cedar Falls	(1,200,000)	(1,200,000)
Property tax paid	(330,660)	(333,369)
	<u>3,770,175</u>	<u>8,056,121</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Interest paid	(2,418)	(5,185)
Net cash used in noncapital financing activities	(2,418)	(5,185)
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(1,395,000)	(785,000)
Proceeds from issuance of revenue bonds	-	24,623,703
Cost of issuance of revenue bonds	-	(100,945)
Proceeds from customer advances for construction	306,300	332,500
Refunds of customer advances for construction	(171,500)	(165,100)
Acquisition, construction and removal cost of capital assets	(16,800,799)	(16,973,200)
Proceeds from sale of capital assets	33,703	188,222
Reimbursement of utility construction costs	243,620	26,443
Interest paid	(1,683,461)	(1,067,449)
	<u>(19,467,137)</u>	<u>6,079,174</u>
Net cash provided by (used in) capital and related financing activities		
Cash flows from investing activities:		
Proceeds from repayment of loan by associated utility	310,000	310,000
Proceeds from maturities of investment securities	21,107,162	21,293,211
Purchase of investment securities	(13,836,383)	(32,423,189)
Interest received	1,518,153	1,026,831
	<u>9,098,932</u>	<u>(9,793,147)</u>
Net cash provided by (used in) investing activities		
Net increase (decrease) in cash and cash equivalents	(6,600,448)	4,336,963
Cash and cash equivalents, beginning of year	8,226,344	3,889,381
Cash and cash equivalents, end of year (note 1)	<u>\$1,625,896</u>	<u>\$8,226,344</u>

See accompanying notes to financial statements.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows, Continued  
Years ended December 31, 2006, and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 3,755,592	\$ 4,705,883
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization of capital assets	2,754,607	2,647,776
Other Income (expense), net	870,259	966,826
(Increase) decrease in accounts receivable	671,339	(1,539,033)
(Increase) decrease in inventories	(3,303,676)	(806,158)
(Increase) decrease in prepayments and other	153,400	189,530
(Increase) decrease in other assets	(22,083)	(41,040)
Increase (decrease) in accounts payable	2,871,275	916,363
Increase (decrease) in accrued wages and vacation	24,403	21,673
Increase (decrease) in other accrued expenses	44,164	(17,871)
Increase (decrease) in other liabilities	<u>(4,049,105)</u>	<u>1,012,172</u>
Net cash provided by operating activities	<u>\$ 3,770,175</u>	<u>\$ 8,056,121</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

The Municipal Electric Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls, Iowa. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility's present capacity consists of one wholly owned and two jointly owned coal-fired plants with a combined generating capacity of 88 megawatts. The Utility owns two wholly owned combustion turbines with a generating capacity of 53 megawatts. The Utility also owns 1.5 megawatts of generating capacity in a jointly owned wind turbine facility. The Utility owns a total of 142.5 megawatts of generating capacity.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 18-Conservation of Power and Water Resources, Chapter I-Federal Energy Regulatory Commission, Department of Energy.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Utility applies only Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989.

(b) Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 4.63% in 2006 and 2005. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets.

The range of estimated service lives for the classes of capital assets are as follows: land improvements - 30 years, infrastructure - 10 to 150 years, buildings and improvements - 20 to 55 years, and equipment - 5 to 25 years. The depreciation provisions were equivalent to an overall composite rate of 3.0% and 2.6 of depreciable assets for 2006 and 2005, respectively.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time capital assets are retired, the original cost of the asset plus cost of removal less salvage are charged to accumulated depreciation.

(c) Cash and Investments

Investments are stated at their fair value on the balance sheets. The Utility's investments stated at fair value reflect quoted market prices at the balance sheet date, for U.S. Treasury and government agency debt securities. The cost of certificates of deposit approximates fair value.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows. Included in cash and cash equivalents at December 31, 2006 was \$500,000 for amounts invested in the Iowa Public Agency Investment Trust (IPAITS).

(d) Inventories

Coal and oil inventories are valued at average cost. Materials and supplies are valued at average cost. Inventories are recorded as an expenditure at the time individual inventory items are consumed.

(e) Operating Revenues and Expenses

Operating revenues include revenues resulting from the sale of electricity, service revenues and sales of capacity. Operating expenses include expenses for power production, transmission, distribution, depreciation, customer accounts, customer service and information, sales, and administrative and general. Non-operating revenues and expenses include those derived from capital and related financing activities, non-capital financing activities and investing activities.

Revenues from the sale of electricity are based on billing rates, which are applied to customers' consumption of electricity. The Utility records estimated unbilled revenue, including amounts to be billed under a fuel adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2006 and 2005, were \$1,173,375, and \$1,053,855 respectively, and are recorded in customer accounts receivable. The Utility uses a fuel adjustment clause whereby increases or decreases in fuel costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

(f) Bond Issue Costs

Unamortized bond issue costs are amortized over the life of the bonds using the effective interest method.

(g) Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent debt proceeds of this capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(h) Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

(i) Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based on the total of all four utilities as a whole. During the year, there were no budget amendments.

(j) Reclassifications

Reclassifications of prior year's amounts have been made for comparability.

(2) Restricted Assets

Restricted assets represent monies set aside under the terms of the bond resolutions relating to the Series 1999A, 1999B, 2003, and 2005 revenue bonds. In accordance with the covenants of the bond resolutions, monies are also segregated into various funds. The composition of these funds as of December 31 was as follows:

	<u>2006</u>	<u>2005</u>
Current assets - restricted:		
Bond reserve fund	\$ 1,500	\$ 1,500
Bond and interest fund	256,836	256,538
Construction fund	<u>1,019,763</u>	<u>2,275,589</u>
Restricted - cash	<u>1,278,099</u>	<u>2,533,627</u>
Non-current assets - restricted:		
Bond reserve fund	3,117,750	3,117,750
Improvement and extension fund	1,000,000	1,000,000
Construction fund	<u>5,648,123</u>	<u>12,904,500</u>
Restricted non-current investments	<u>9,765,873</u>	<u>17,022,250</u>
Total restricted assets	<u>\$11,043,972</u>	<u>\$19,555,877</u>

The monies deposited into the various funds have been invested in interest-bearing securities as required by the bond resolutions. Amounts deposited in the above funds may only be used for the purpose of paying principal and interest on the bonds when due or such other purposes as set forth in the bond resolutions and as a result are classified as restricted.

(3) Cash on Hand, Deposits, and Investments

Cash on Hand. Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2006 was \$227 and 2005 was \$493.

Deposits. At December 31, 2006, the Utility's carrying amount of deposits, including \$10,843,756 of certificates of deposits and \$762,822 of money market accounts, was \$11,969,425. At December 31, 2005, the Utility's carrying amount of deposits, including \$9,943,756 of certificates of deposits and \$4,297,171 of money market accounts, was \$17,669,608.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(3) Cash on Hand, Deposits, and Investments, Continued

Investments. The utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of December 31, 2006, the Utility had the following investments and maturities. (The Utility assumes callable bonds will not be called):

Investment Type	Investment Maturities (In Years)		
	Less than 1	1 to 3	Total
Federal Agency Obligations	\$15,003,723	\$ 968,300	\$15,972,023

As of December 31, 2005, the Utility had the following investments and maturities. (The Utility assumes callable bonds will not be called):

Investment Type	Investment Maturities (In Years)		
	Less than 1	1 to 3	Total
Federal Agency Obligations	\$ 8,727,609	\$15,253,501	\$23,981,110

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$500,000 at December 31, 2006 and 2005, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk. The Utility's investment policy limits the investments of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk. The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during the year. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of Credit Risk. The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during the year.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(3) Cash on Hand, Deposits, and Investments, Continued

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utility had no custodial risk with regards to investments, since all investments were held by the Utility or its agent in the Utility's name.

A reconciliation of the Utility's cash and cash equivalents and investments as shown on the balance sheets follows:

	2006	2005
Cash on hand	\$ 227	\$ 493
Carrying amount of deposits	11,969,425	17,669,608
Carrying amount of federal agency obligations	15,972,023	23,981,110
Carrying mount of Iowa Public Agency Investment Trust	500,000	500,000
Total	<u>\$28,441,675</u>	<u>\$42,151,211</u>
Current Assets		
Cash and cash equivalents	\$ 347,797	\$ 5,692,717
Investments	16,081,606	7,952,227
Restricted Cash	1,278,099	2,533,627
Non-current Investments		
Restricted	9,765,873	17,022,250
Unrestricted	968,300	8,950,390
Total	<u>\$28,441,675</u>	<u>\$42,151,211</u>

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2006 and 2005 - Restated follows:

2006	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 991,704	\$ -	\$ -	\$ 991,704
Construction, Work-in-progress	22,575,670	3,607,233	916,519	25,266,384
Total capital assets, not being depreciated	23,567,374	3,607,233	916,519	26,258,088
Capital assets, being depreciated:				
Land improvements	4,683	-	-	4,683
Infrastructure 77,949,225	79,481,804	12,127,675	369,433	91,240,046
Buildings and improvements 12,303,000	12,240,914	228,877	42,453	12,427,338
Equipment 15,008,351	15,070,537	2,820,998	432,273	17,459,262
Total capital assets, being depreciated	106,797,938	15,177,550	844,159	121,131,329
Less accumulated depreciation	62,354,265	3,241,967	1,062,888	64,533,344
Total capital assets, being depreciated, net	44,443,673	11,935,583	(218,729)	56,597,985
Capital assets, net	\$68,011,047	\$15,542,816	\$ 697,790	\$82,856,073
2005	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 991,704	\$ -	\$ -	\$ 991,704
Construction, Work-in-progress	11,118,528	17,933,280	6,476,138	22,575,670
Total capital assets, not being depreciated	12,110,232	17,933,280	6,476,138	23,567,374
Capital assets, being depreciated:				
Land improvements	4,683	-	-	4,683
Infrastructure	74,248,081	5,543,963	310,240	79,481,804
Buildings and improvements	10,883,742	1,360,324	3,152	12,240,914
Equipment	14,420,302	1,104,430	454,195	15,070,537
Total capital assets, being depreciated	99,556,808	8,008,717	767,587	106,797,938
Less accumulated depreciation	58,601,755	4,526,443	773,933	62,354,265
Total capital assets, being depreciated, net	40,955,053	3,482,274	(6,346)	44,443,673
Capital assets, net	\$53,065,285	\$21,415,554	\$6,469,792	\$68,011,047

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(5) Non-current Liabilities

Non-current liabilities activity for the years ended December 31, 2006 and 2005 was as follows:

2006	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 1999A revenue bonds	\$3,250,000	\$ -	\$ 375,000	\$2,875,000	\$ 400,000
Series 1999B revenue bonds	1,695,000	-	205,000	1,490,000	215,000
Series 2003 revenue bonds	9,525,000	-	245,000	9,280,000	250,000
Series 2005 revenue bonds	24,975,000	-	570,000	24,405,000	595,000
Unamortized premium on revenue bonds	161,252	-	21,036	140,216	-
Unamortized discount on revenue bonds	(598,042)	-	(79,470)	(518,572)	-
	<u>39,008,210</u>	<u>-</u>	<u>1,336,566</u>	<u>37,671,644</u>	<u>\$1,460,000</u>
Current installments of long-term debt	(1,395,000)	(65,000)	-	(1,460,000)	
Long-term debt, less current installments	<u>37,613,210</u>	<u>(65,000)</u>	<u>1,336,566</u>	<u>36,211,644</u>	
Customer advances for construction	295,350	325,200	190,400	430,150	
Other liabilities:					
Landfill closure	468,917	599	6,719	462,797	
Accrued severance	629,670	113,569	116,554	626,685	
Contract payable	<u>4,040,000</u>	<u>-</u>	<u>4,040,000</u>	<u>-</u>	
Non-current liabilities	<u>5,433,937</u>	<u>439,368</u>	<u>4,353,673</u>	<u>1,519,632</u>	
Total non-current liabilities	<u>\$43,047,147</u>	<u>\$ 374,368</u>	<u>\$5,690,239</u>	<u>\$37,731,276</u>	

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(5) Non-current Liabilities, Continued

2005	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 1999A revenue bonds	\$3,600,000	\$ -	\$ 350,000	\$3,250,000	\$ 375,000
Series 1999B revenue bonds	1,890,000	-	195,000	1,695,000	205,000
Series 2003 revenue bonds	9,765,000	-	240,000	9,525,000	245,000
Series 2005 revenue bonds	-	24,975,000	-	24,975,000	570,000
Unamortized premium on revenue bonds	-	167,843	6,591	161,252	-
Unamortized discount on revenue bonds	(116,623)	(519,140)	(37,721)	(598,042)	-
	<u>15,138,377</u>	<u>24,623,703</u>	<u>753,870</u>	<u>39,008,210</u>	<u>\$1,395,000</u>
Current installments of long-term debt	(785,000)	(610,000)	-	(1,395,000)	
Long-term debt, less current installments	<u>14,353,377</u>	<u>24,013,703</u>	<u>753,870</u>	<u>37,613,210</u>	
Customer advances for construction	127,950	332,500	165,100	295,350	
Other liabilities:					
Landfill closure	477,819	-	8,902	468,917	
Accrued severance	572,944	75,305	18,579	629,670	
Contract payable	<u>3,075,652</u>	<u>964,348</u>	<u>-</u>	<u>4,040,000</u>	
Non-current liabilities	<u>4,254,365</u>	<u>1,372,153</u>	<u>192,581</u>	<u>5,433,937</u>	
Total non-current liabilities	<u>\$18,607,742</u>	<u>\$25,385,856</u>	<u>\$ 946,451</u>	<u>\$43,047,147</u>	

During 2005, the Utility issued \$24,975,000 of Series 2005 revenue bonds for the purpose of paying costs of improvements and extensions to the Utility, including the construction of generation and related transmission facilities to serve the Utility. The bonds mature in 2024 and interest rates throughout the term of the bonds are in a range between 3.00% and 4.25%.

During 2003, the Utility issued \$10,000,000 of Series 2003 revenue bonds for the purpose of paying costs of improvements and extensions to the Utility, including the construction of generation and related transmission facilities to serve the Utility. The bonds mature in 2023 and interest rates throughout the term of the bonds are in a range between 3.25% and 4.50%.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(5) Non-current Liabilities, Continued

The Series 1999A, 1999B, 2003 and 2005 revenue bonds require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between 3.25% and 7.125%. The bonds are secured by the future net revenues of the Utility. Long-term debt matures and bears interest as follows:

Year	Series 1999A Electric Revenue Bonds		Series 1999B Electric Revenue Bonds	
	December 1 Principal Amount	7.100%-7.125% Interest Amount	December 1 Principal Amount	4.750%-5.100% Interest Amount
2007	\$ 400,000	\$204,399	\$ 215,000	\$ 73,463
2008	430,000	175,998	225,000	63,142
2009	460,000	145,469	240,000	52,230
2010	490,000	112,809	255,000	40,530
2011	530,000	78,019	270,000	28,035
2012	565,000	40,256	285,000	14,535
	<u>\$2,875,000</u>	<u>\$756,950</u>	<u>\$1,490,000</u>	<u>\$271,935</u>

  

Year	Series 2003 Electric Revenue Bonds		Series 2005 Electric Revenue Bonds	
	December 1 Principal Amount	3.25%-4.50% Interest Amount	December 1 Principal Amount	3.00%-4.25% Interest Amount
2007	\$ 250,000	\$ 374,388	\$ 595,000	\$ 969,788
2008	255,000	366,263	615,000	951,938
2009	265,000	357,975	630,000	933,488
2010	270,000	349,363	655,000	911,438
2011	280,000	339,913	670,000	888,512
2012-2016	2,660,000	1,480,587	6,495,000	3,890,700
2017-2021	3,600,000	856,999	8,675,000	2,379,218
2022-2024	1,700,000	115,235	6,070,000	521,687
	<u>\$9,280,000</u>	<u>\$4,240,723</u>	<u>\$24,405,000</u>	<u>\$11,446,769</u>

The bond resolution provides certain covenants relating to the collection, segregation, and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(5) Non-current Liabilities, Continued

Iowa Administrative Code rule 567-103.2(13) requires the Utility to place a final cover on its Leverssee Road ash landfill site when it is closed and thereupon to have in place surveying monuments and an approved groundwater monitoring system. Iowa Administrative Code rule 567-103.2(14) requires the Utility to maintain the final cover, monitor ground water, and file reports with the Iowa Department of Natural Resources for thirty years following closure of the site. Although closure and post closure costs are paid only near or after the date that the landfill is closed, the Utility reports a portion of these closure and post closure costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$462,797 reported as landfill closure and post closure care liability at December 31, 2006, represents the cumulative amount reported to date based on the use of 100% of the estimated capacity of the landfill. This is based on what it would cost to perform all closure and post closure care in 2006. The Utility expects to close the landfill no earlier than the year 2006. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

(6) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2006, 2005, and 2004 were \$301,172; \$292,729; and \$272,558; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Contractually, qualifying employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age may convert their accrued sick leave value into paid health insurance premiums upon retirement. The Utility recognized liability of \$195,027 and \$293,770; respectively, for the years ended December 31, 2006 and 2005.

(7) Income Tax Status

The Utility is exempt from federal and state income taxes under the applicable tax codes.

(8) Jointly-Owned Capital Assets

The Utility's share of jointly owned electric facilities at December 31, 2006 and 2005 is reflected in the following table. These facilities provide approximately 27% of the Utility's total generating capacity. The Utility is required to provide financing for its share of the facilities. The Utility's share of expenses associated with these facilities is included with the appropriate operating expenses in the statements of revenues, expenses and changes in net assets.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(8) Jointly-Owned Capital Assets, Continued

Facility	Capital Assets, Net			
	Percentage Ownership	Capacity MW	2006	2005
Council Bluffs #3	3.1%	20.9	\$3,820,294	\$3,968,389
Neal #4	2.5%	15.6	2,301,483	2,097,267
Iowa Distributed Wind Generation Project	65.8%	1.5	831,715	874,815

(9) Related Party Transactions

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses for 2006 and 2005 were \$1,200,000 and \$1,200,000, respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2006, the Utility's Board of Trustees approved a payment of \$1,200,000 related to payments in lieu of taxes for 2006.

In addition, the Utility provides electric service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$560,739 and \$476,441 in 2006 and 2005, respectively.

The Electric Utility has extended a loan to the Municipal Communications Utility of the City of Cedar Falls (Communications Utility), with an outstanding balance of \$2,473,090 and \$2,783,090 as of December 31, 2006 and 2005, respectively. Interest accrues on the loan at 3.10% and is paid semi-annually during January and July. Semi-annual principal payments continue through 2016. Accrued interest receivable was \$41,196 and \$46,040 at December 31, 2006 and 2005, respectively. Interest income for the years ended December 31, 2006 and 2005 was \$83,835 and \$93,585 respectively.

For the years ended December 31, 2006 and 2005, the Utility earned a management fee of \$69,863 and \$67,510, respectively, from the Communications Utility for administration, finance, human resources and legal services, which is recorded in miscellaneous nonoperating revenue.

(10) Risk Management

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2006 plan year for aggregate claims exceeding \$2,345,816.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(10) Risk Management, Continued

Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. Changes in the balances of claims liabilities during the past two years are as follows:

	<u>2006</u>	<u>2005</u>
Unpaid claims and IBNR, beginning of year	\$ 167,475	\$ 162,225
Current year costs including IBNR	2,088,644	1,566,575
Claims paid	<u>(1,956,119)</u>	<u>(1,561,325)</u>
Unpaid claims and IBNR, end of year	<u>\$ 300,000</u>	<u>\$ 167,475</u>

The Utility has recorded \$174,000 and \$97,135 in accounts payable for its share of these unpaid claims at December 31, 2006 and 2005, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 470 governmental entities participate in the Association. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2006.

There have been no instances where the amount of settlement has exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage from coverage in the prior year.

Cash and cash equivalents and investments	\$32,250,577
Receivables	1,368,218
Other assets	<u>238,716</u>
Total assets	<u>\$33,857,511</u>
 Total liabilities	 \$18,465,385
Total equity	<u>15,392,126</u>
Total liabilities and equity	<u>\$33,857,511</u>
 Total revenues	 \$6,867,019
Total expenses	2,816,878
Distribution to members	<u>-</u>
Net increase in equity	<u>\$4,050,141</u>

(11) Commitments and Contingencies

The Utility jointly owns the Council Bluffs #3 generating unit, the Neal #4 generating unit, and the Council Bluffs #4 generating unit (see note 8). Coal procurements are made by the agent for the joint owners on a system portfolio basis, which are a mix of 1, 2, and 3-year purchases to minimize risk. The Utility is obligated to purchase at least the annual amount of coal to operate the Utility's share at minimum load. The Utility's share of coal purchases for the years 2006 and 2005 were \$2,219,950 and \$2,043,851, respectively.

MUNICIPAL ELECTRIC UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(11) Commitments and Contingencies, Continued

On July 29, 2002, the Board of Trustees approved the joint ownership agreement for the construction and operation of the Council Bluffs Energy Center Unit 4. The Utility will become a 2.02% owner which is approximately 15.97 megawatts. The Utility's total estimated cost to construct is \$25 million. Preliminary design work was started in 2003 with operations expected to begin in 2007.

The Utility is a party to various lawsuits arising in the normal course of business. The Utility believes the resolutions will not have a material adverse impact on its financial operations and net assets.

As of December 31, 2006, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$3,995,716. Additionally, the Council Bluffs Energy Center Unit 4 project has an estimated cost to complete of approximately \$5,900,000.

(12) Subsequent Events

The Utility incurred significant damage to its electric distribution system as the result of a severe ice storm on February 24 and 25, 2007. The extent of the damage has not been fully determined, however, preliminary estimates of damages and reconstruction are estimated to be \$1.9 million. It is expected that some of this amount associated with the storm damage reconstruction will be capitalized. The damaged facilities will be retired and replaced with new facilities. There may be maintenance expense associated with the some of the damage restoration. The service area was declared a federal disaster area and the Utility has applied for assistance from the Federal Emergency Management Agency (FEMA). It is anticipated that the Utility will received some assistance to cover the damage.



CPAs & BUSINESS ADVISORS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Cedar Falls Utilities – Municipal Electric Utility

We have audited the financial statements of Cedar Falls Utilities – Municipal Electric Utility of Cedar Falls, Iowa (the Utility), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated April 24, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility and are reported in Part II of the accompanying Schedule of Findings. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

We noted certain matters that we reported to management of the Utility in a separate letter dated April 24, 2007.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of the Utility and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
April 24, 2007

**CEDAR FALLS UTILITIES – MUNICIPAL ELECTRIC UTILITY  
CEDAR FALLS, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2006**

**Part I: Summary of the Independent Auditor's Results:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Other Findings Related to Statutory Reporting:**

- II-A-06 Certified Budget - Disbursements during the year ended December 31, 2006, did not exceed the amounts budgeted.
- II-B-06 Questionable Expenditures - We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-06 Business Transactions - No business transactions between the Utility and Utility officials or employees were noted.
- II-E-06 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- II-H-06 Revenue Bonds - We noted no instances of non-compliance with the provisions of the Utility's revenue bond resolutions.



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Cedar Falls Utilities – Municipal Gas Utility

We have audited the accompanying balance sheets of the Municipal Gas Utility of Cedar Falls, Iowa (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2007, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

April 24, 2007  
Dubuque, Iowa

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

The following discussion and analysis of the Municipal Gas Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the years ended December 31, 2006 and 2005. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

- The Utility's net assets increased as a result of operating income and non-operating revenues in 2006 and 2005. At December 31, 2006 and 2005, total assets were \$20,606,213 and \$21,179,569, respectively, and total liabilities were \$4,037,823 and \$5,476,024, respectively, resulting in net assets of \$16,568,390 and \$15,703,545, respectively.
- In 2006 operating revenues decreased 3.3% to \$17,094,528 while operating expenses decreased 3.5 % compared to 2005 to \$16,710,751. In 2005 operating revenues increased 18.8% to \$17,677,347 while operating expenses increased 17.2% to \$17,321,346 in 2005.
- In 2006, the Utility had operating income of \$383,777 compared to operating income of \$356,001 in 2005.

**Overview of the Financial Statements**

Management's discussion and analysis (MD&A) serves as an introduction to the financial statements, and the MD&A represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

The balance sheets include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

The statements of revenues, expenses and changes in net assets present the results of the Utility's activities (revenues and expenses) over the course of the fiscal year and can provide information about the Utility's recovery of its costs. Retail rates to purchase gas are based on rates established by the Board of Trustees based on operating costs, debt service requirements, and anticipated capital needs. A fundamental objective of this rate model is to provide adequate revenue to cover all expenses.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities. This statement provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

**Condensed Financial Information**

The following condensed financial information serves as the key financial data and indicators for management, monitoring and planning.

**Condensed Balance Sheet Information**

	<u>2006</u>	<u>2005</u>
Current assets	\$ 9,162,457	\$ 9,757,391
Capital assets, net	11,437,455	11,161,092
Other non-current assets	6,301	261,086
Total assets	<u>\$20,606,213</u>	<u>\$21,179,569</u>
Current liabilities	\$ 3,228,802	\$ 4,130,134
Non-current liabilities	410,361	352,875
Long-term debt	398,660	993,015
Total liabilities	<u>\$ 4,037,823</u>	<u>\$ 5,476,024</u>
Invested in capital assets, net of related debt	\$10,443,794	\$ 9,608,077
Restricted	297,500	280,000
Unrestricted	5,827,096	5,815,468
Total net assets	<u>\$16,568,390</u>	<u>\$15,703,545</u>

**Condensed Revenues, Expenses and Changes in Net Assets**

	<u>2006</u>	<u>2005</u>
Sales of gas	\$17,060,605	\$17,648,432
Other	33,923	28,915
Total operating revenues	<u>17,094,528</u>	<u>17,677,347</u>
Natural gas purchased for resale	12,659,652	13,506,745
Operation and maintenance	1,111,351	1,013,751
Depreciation	648,517	620,095
Service and administrative	2,291,231	2,180,755
Total operating expenses	<u>16,710,751</u>	<u>17,321,346</u>
Operating Income	<u>383,777</u>	<u>356,001</u>
Interest income	295,368	199,009
Other, net	185,700	184,468
Total non-operating revenues (expenses)	<u>481,068</u>	<u>383,477</u>
Change in net assets	864,845	739,478
Net assets, beginning of year	<u>15,703,545</u>	<u>14,964,067</u>
Net assets, end of year	<u>\$16,568,390</u>	<u>\$15,703,545</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

**Financial Analysis**

Current assets decreased 6.1% in 2006 primarily as the result of the decrease of 26.1% in customer accounts receivables due to warmer weather than in 2005.

Long-term debt decreased by 59.9% due to the continued payment of debt principal of the 2005 Gas Capital Loan Notes.

Non-current liabilities increased 16.3% in 2006 primarily due to the 30.8% increase in Customer Advances for Construction.

Sales of gas decreased 3.3% in 2006 because of a 2.9% decrease in 2006 usage and, therefore, less Purchase Gas Adjustment (PGA) revenues. The average PGA also decreased in 2006 to \$5.04 per mcf from \$6.17 per mcf during 2005, an average decrease of \$1.13 per mcf.

Natural gas purchased for resale decreased 6.27% in 2006 primarily due to the decrease in gas costs due to the decrease in retail gas usage and the decrease in wholesale gas prices. This is reflected in the \$1.13 per mcf decrease in the average PGA from 2005 to 2006 and the decrease in natural gas purchased of \$847,093. The amount of the change in fuel cost to be recovered from December 31, 2005 to December 31, 2006 is a decrease in expense of \$327,114. The change in fuel cost to be recovered represents an additional expense or reduction in expense. Operation and maintenance expenses also increased 9.6% in 2006. This increase is attributable to increased effort to complete meter testing and an increase need to complete maintenance on risers.

Interest income increased 48.4% in 2006 primarily due to the increase in cash and cash equivalents that resulted in an increase in checking interest income and the increase in investments at improved rates of interest.

Other non-operating revenues and expenses, net decreased \$70,720 in 2006 primarily due to the decrease in Tax Improvement Financing (TIF) monies from the City of Cedar Falls. Interest expense decreased 60.0% from 2005 to 2006 due to the reduced interest requirement from the redemption of the 1992 Gas Revenue Bonds with the refunding issue of Gas Capital Loan Notes.

**Capital Assets and Debt Administration**

Net capital assets represent 55.5 % of total assets for the Utility. Net capital assets increased 2.5% from the prior year primarily due to the additional infrastructure required due to continued community residential and commercial growth experienced through 2006. Additional detail on the change in capital assets can be found in Note 4.

On July 1, 2005, the Utility expended \$2,325,000 for the redemption of the outstanding series 1992 revenue bonds. The Utility used their own funds and \$1,551,000 in proceeds from the issue of Gas Capital Loan Notes to extinguish the debt. Additional detail on the redemption can be found in Note 5.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets  
December 31, 2006 and 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 18,098,424	\$ 17,658,175
Less accumulated depreciation	<u>7,177,673</u>	<u>6,589,522</u>
	10,920,751	11,068,653
Construction work in progress	<u>516,704</u>	<u>92,439</u>
Net capital assets	<u>11,437,455</u>	<u>11,161,092</u>
Noncurrent assets:		
Noncurrent investments: (note 3)		
Unrestricted	<u>-</u>	<u>243,850</u>
Total noncurrent investments	<u>-</u>	<u>243,850</u>
Current assets:		
Cash and cash equivalents (note 3)	3,910,767	3,789,202
Investments (note 3)	1,881,400	1,635,000
Receivables:		
Customer accounts, less allowance for doubtful		
accounts of \$35,850 in 2006 and \$29,737 in 2005	2,828,796	3,829,917
Trade	14,210	18,715
Interest	58,176	42,150
Inventories:		
Material and supplies	134,647	136,811
Prepayments and other	22,631	25,596
Restricted - cash (note 2)	<u>311,830</u>	<u>280,000</u>
Total current assets	<u>9,162,457</u>	<u>9,757,391</u>
Deferred costs:		
Deferred costs	<u>6,301</u>	<u>17,236</u>
Total assets	<u>\$ 20,606,213</u>	<u>\$ 21,179,569</u>

See accompanying notes to financial statements.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets  
December 31, 2006 and 2005

<u>Liabilities</u>	<u>2006</u>	<u>2005</u>
Long-term debt, less current installments (note 5)	\$ 398,660	\$ 993,015
Current liabilities:		
Accounts payable	2,201,390	3,150,023
Reserve for surplus declaration (note 9)	200,000	200,000
Accrued wages and vacations	173,360	156,854
Accrued interest	14,330	-
Other accrued expenses	44,722	63,257
Current installments of long-term debt (note 5)	595,000	560,000
Total current liabilities	<u>3,228,802</u>	<u>4,130,134</u>
Noncurrent liabilities: (note 5)		
Customer advances for construction	176,061	134,541
Other liabilities	234,300	218,334
Total noncurrent liabilities	<u>410,361</u>	<u>352,875</u>
 Total liabilities	 <u>4,037,823</u>	 <u>5,476,024</u>
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	10,443,794	9,608,077
Restricted - bond indentures (note 2)	297,500	280,000
Unrestricted	5,827,096	5,815,468
Total net assets	<u>16,568,390</u>	<u>15,703,545</u>
 Total liabilities and net assets	 <u>\$ 20,606,213</u>	 <u>\$ 21,179,569</u>

See accompanying notes to financial statements.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)  
Statements of Revenues, Expenses and Changes in Net Assets  
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues: (note 5)		
Sales of gas:		
Residential	\$ 9,738,220	\$ 10,210,682
Industrial	2,072,330	1,979,729
Commercial	3,995,069	4,313,326
Governmental (note 8)	1,051,671	988,941
Interdepartmental	203,315	155,754
Total sales of gas	<u>17,060,605</u>	<u>17,648,432</u>
Other operating revenues	33,923	28,915
Total operating revenues	<u>17,094,528</u>	<u>17,677,347</u>
Operating expenses:		
Production:		
Natural gas purchased for resale	12,659,652	13,506,745
Other	43	4,898
Distribution	1,111,308	1,008,853
Depreciation	648,517	620,095
Customer accounts	411,361	425,580
Customer service and information expenses	47,286	40,223
Sales	18,559	21,661
Administrative and general (note 8)	1,686,308	1,572,784
Taxes other than income taxes	127,717	120,507
Total operating expenses	<u>16,710,751</u>	<u>17,321,346</u>
Operating income	<u>383,777</u>	<u>356,001</u>
Nonoperating revenues (expenses):		
Interest income	295,368	199,009
Net increase (decrease) in the fair value of investments	2,550	(4,725)
Miscellaneous revenue (expense), net (note 8)	228,521	301,756
Interest expense on long-term debt	(45,371)	(112,563)
Total nonoperating revenues (expenses)	<u>481,068</u>	<u>383,477</u>
Change in net assets	864,845	739,478
Net assets, beginning of year	<u>15,703,545</u>	<u>14,964,067</u>
Net assets, end of year	<u>\$ 16,568,390</u>	<u>\$ 15,703,545</u>

See accompanying notes to financial statements.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows  
Years ended December 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash received from customers	\$ 18,361,770	\$ 17,259,014
Cash paid to suppliers	(15,731,468)	(14,527,780)
Cash paid to employees	(1,100,650)	(1,044,275)
Payment in lieu of taxes to the City of Cedar Falls	<u>(200,000)</u>	<u>(200,000)</u>
Net cash provided by operating activities	<u>1,329,652</u>	<u>1,486,959</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(560,000)	(2,325,000)
Proceeds from issuance of revenue debt	-	1,551,890
Cost of issuance of revenue debt	-	(27,000)
Proceeds from customer advances for construction	84,840	110,490
Refunds of customer advances for construction	(43,320)	(54,600)
Acquisition, construction and removal cost of capital assets	(928,683)	(1,031,322)
Proceeds from sale of capital assets	5,113	58,054
Reimbursement of utility construction costs	8,060	7,830
Interest paid	<u>(21,610)</u>	<u>(176,285)</u>
Net cash used in capital and related financing activities	<u>(1,455,600)</u>	<u>(1,885,943)</u>
Cash flows from investing activities:		
Proceeds from maturities of investment securities	1,635,000	3,267,390
Purchase of investment securities	(1,635,000)	(3,186,890)
Interest received	<u>279,343</u>	<u>179,116</u>
Net cash provided by investing activities	<u>279,343</u>	<u>259,616</u>
Net increase (decrease) in cash and cash equivalents	153,395	(139,368)
Cash and cash equivalents, beginning of year	<u>4,069,202</u>	<u>4,208,570</u>
Cash and cash equivalents, end of year (note 1)	<u><u>\$ 4,222,597</u></u>	<u><u>\$ 4,069,202</u></u>

See accompanying notes to financial statements.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows, Continued  
Years ended December 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 383,777	\$ 356,001
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	648,517	620,095
Other Income (expense), net	221,299	301,756
(Increase) decrease in accounts receivable	1,005,626	(757,890)
(Increase) decrease in inventories	2,164	(5,416)
(Increase) decrease in prepayments and other	2,965	15,439
Increase (decrease) in accounts payable	(948,633)	948,228
Increase (decrease) in accrued wages and vacation	16,506	(4,817)
Increase (decrease) in accrued expenses	(18,535)	513
Increase (decrease) in other liabilities	<u>15,966</u>	<u>13,050</u>
Net cash provided by operating activities	<u>\$ 1,329,652</u>	<u>\$ 1,486,959</u>

See accompanying notes to financial statements.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

The Municipal Gas Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls, Iowa. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 18 - Conservation of Power and Water Resources, Chapter I - Federal Energy Regulatory Commission, Department of Energy.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Utility applies only Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989.

(b) Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 5.74% in 2006 and 2005. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated services and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure - 15 to 65 years, buildings and improvements - 30 to 45 years, and equipment - 20 to 85 years. The depreciation provisions were equivalent to an overall composite rate of 3.7% of depreciable assets for 2006 and 2005.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time capital assets are retired, the original cost of the asset plus cost of removal less salvage are charged to accumulated depreciation.

(c) Cash and Investments

Investments are stated at their fair value on the balance sheets. The Utility's investments stated at fair value reflect quoted market prices at the balance sheet date, for U.S. Treasury and government agency debt securities. The cost of certificates of deposit approximates fair value.

The Utility considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2006 and 2005 was \$500,000, respectively for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

(d) Inventories

Materials and supplies are valued at average cost. Inventories are recorded as an expenditure at the time individual inventory items are consumed.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

(e) Natural Gas Commodity Purchases

The Utility has entered into agreements with natural gas suppliers to purchase gas for resale to our customers. Purchases under these contracts are considered "normal purchases and sales" under Statements of Financial Accounting Standards (SFAS) No. 133 and are not marked-to-market.

(f) Operating Revenues and Expenses

Operating revenues include revenues resulting from the sale of gas and service revenues. Operating expenses include expenses for power production, distribution, depreciation, customer accounts, customer service and information, sales, and administrative and general. Nonoperating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities, and investing activities.

Revenues from the sale of gas are based on billing rates, which are applied to customers' consumption of gas. The Utility records estimated unbilled revenue, including amounts to be billed under a purchased gas adjustment clause, at the end of accounting periods. Revenues earned, but not yet billed at December 31, 2006 and 2005 were \$1,652,928 and \$1,761,868, respectively, and are recorded in customer accounts receivable. The Utility uses a purchased gas adjustment clause whereby increases and decreases in fuel costs are billed to customers and included in operating revenue without changing base rates charged to its customers.

(g) Debt Discount and Bond Issue Costs

Unamortized debt discount and bond issue costs are amortized over the life of the bonds using the effective interest method.

(h) Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(i) Reclassifications

Reclassifications of prior year's amounts have been made for comparability.

(j) Estimates

The preparation of the financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

(k) Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based on the total of all four utilities as a whole. During the year, there were no budget amendments.

(2) Restricted Assets

Restricted assets represent monies set aside under the terms of the bond resolutions relating to the Revenue Refunding Capital Loan Notes, Series 2005 revenue bonds. In accordance with the covenants of the bond resolutions, the monies are segregated into various funds. The composition of these funds as of December 31 was as follows:

	<u>2006</u>	<u>2005</u>
Current assets - restricted:		
Bond and interest fund	\$ 311,830	\$ 280,000

The monies deposited into the various funds have been invested in interest-bearing securities as required by the bond resolutions. Amounts deposited in the above funds may only be used for the purpose of paying principal and interest on the bonds when due or such other purposes as set forth in the bond resolutions and as a result are classified as restricted.

(3) Cash on Hand, Deposits, and Investments

Cash on Hand. Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2006 and 2005 was \$60 and \$165, respectively.

Deposits. At December 31, 2006, the Utility's carrying amount of deposits, including \$1,635,000 of certificates of deposits was \$5,357,537. At December 31, 2005, the Utility's carrying amount of deposits, including \$1,635,000 of certificates of deposits, was \$5,204,037.

Investments. The utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(3) Cash on Hand, Deposits, and Investments, Continued

As of December 31, 2006, the Utility had the following investments and maturities.  
(The Utility assumes callable bonds will not be called):

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>		
	<u>Less than 1</u>	<u>1 to 3</u>	<u>Total</u>
Federal Agency Obligations	\$ 246,400	\$ -	\$ 246,400

As of December 31, 2005, the Utility had the following investments and maturities.  
(The Utility assumes callable bonds will not be called):

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>		
	<u>Less than 1</u>	<u>1 to 3</u>	<u>Total</u>
Federal Agency Obligations	\$ -	\$ 243,850	\$ 243,850

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$500,000 at December 31, 2006 and 2005, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

**Interest Rate Risk.** The Utility's investment policy limits the investments of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

**Credit Risk.** The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during the year. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

**Concentration of Credit Risk.** The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during the year.

**Custodial Credit Risk - Deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(3) Cash on Hand, Deposits, and Investments, Continued

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utility had no custodial risk with regards to investments, since all investments were held by the Utility or its agent in the Utility's name.

A reconciliation of the Utility's cash and cash equivalents and investments as shown on the balance sheets follows:

	2006	2005
Cash on hand	\$ 60	\$ 165
Carrying amount of deposits	5,357,537	5,204,037
Carrying amount of federal agency obligations	246,400	243,850
Carrying amount of Iowa Public Agency Investment Trust	500,000	500,000
Total	<u>\$6,103,997</u>	<u>\$5,948,052</u>
Current Assets		
Cash and cash equivalents	\$3,910,767	\$3,789,202
Investments	1,881,400	1,635,000
Restricted Cash	311,830	280,000
Non-current Investments		
Unrestricted	-	243,850
Total	<u>\$6,103,997</u>	<u>\$5,948,052</u>

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2006 and 2005 follows:

2006	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 41,350	\$ -	\$ -	\$ 41,350
Construction, Work-in-progress	92,439	481,857	57,592	516,704
Total capital assets, not being depreciated	<u>133,789</u>	<u>481,857</u>	<u>57,592</u>	<u>558,054</u>
Capital assets, being depreciated:				
Infrastructure	15,818,222	395,493	52,378	16,161,337
Buildings and improvements <span style="margin-left: 20px;">1,191,603</span>	1,136,911	11,400	2,607	1,145,704
Equipment <span style="margin-left: 20px;">639,001</span>	661,692	88,341	-	750,033
Total capital assets, being depreciated	<u>17,616,825</u>	<u>495,234</u>	<u>54,985</u>	<u>18,057,074</u>
Less accumulated depreciation	6,589,522	654,472	66,321	7,177,673
Total capital assets, being depreciated, net	<u>11,027,303</u>	<u>(159,238)</u>	<u>(11,336)</u>	<u>10,879,401</u>
Capital assets, net	<u>\$11,161,092</u>	<u>\$ 322,619</u>	<u>\$ 46,256</u>	<u>\$11,437,455</u>

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(4) Capital Assets, Continued

2005	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 41,350	\$ -	\$ -	\$ 41,350
Construction, Work-in-progress	429,567	970,592	1,307,720	92,439
Total capital assets, not being depreciated	470,917	970,592	1,307,720	133,789
Capital assets, being depreciated:				
Infrastructure	15,211,173	728,513	121,464	15,818,222
Buildings and improvements	677,743	459,168	-	1,136,911
Equipment	543,308	120,040	1,656	661,692
Total capital assets, being depreciated	16,432,224	1,307,721	123,120	17,616,825
Less accumulated depreciation	6,102,294	623,001	135,773	6,589,522
Total capital assets, being depreciated, net	10,329,930	684,720	(12,653)	11,027,303
Capital assets, net	<u>\$10,800,847</u>	<u>\$1,655,312</u>	<u>\$1,295,067</u>	<u>\$11,161,092</u>

(5) Non-current Liabilities

Non-current liabilities activity for the years ended December 31, 2006 and 2005 was as follows:

2006	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 2005 gas refunding capital loan notes	\$1,555,000	\$ -	\$ 560,000	\$ 995,000	\$595,000
Unamortized discount on capital loan notes	(1,985)	-	(645)	(1,340)	-
	<u>1,553,015</u>	<u>-</u>	<u>559,355</u>	<u>993,660</u>	<u>\$595,000</u>
Current installments of long-term debt	(560,000)	(35,000)	-	(595,000)	
Long-term debt, less Current installments	<u>993,015</u>	<u>(35,000)</u>	<u>559,355</u>	<u>398,660</u>	
Customer advances For construction	134,541	112,580	71,060	176,061	
Accrued severance & retirement benefits	218,334	35,459	19,493	234,300	
Other current liabilities	<u>352,875</u>	<u>148,039</u>	<u>90,553</u>	<u>410,361</u>	
Total non-current liabilities	<u>\$1,345,890</u>	<u>\$ 113,039</u>	<u>\$ 649,908</u>	<u>\$ 809,021</u>	

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(5) Non-current Liabilities, Continued

2005	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 1992 revenue bonds	\$2,325,000	\$ -	\$2,325,000	\$ -	
Series 2005 gas refunding capital loan notes	-	1,555,000	-	1,555,000	\$560,000
Unamortized discount on revenue bonds	(5,775)	(3,110)	(6,900)	(1,985)	-
	<u>2,319,225</u>	<u>1,551,890</u>	<u>2,318,100</u>	<u>1,553,015</u>	<u>\$560,000</u>
Current installments of long-term debt	(500,000)	(60,000)	-	(560,000)	
Long-term debt, less current installments	<u>1,819,225</u>	<u>1,491,890</u>	<u>2,318,100</u>	<u>993,015</u>	
Customer advances for construction	78,651	110,490	54,600	134,541	
Accrued severance & retirement benefits	205,284	23,011	9,961	218,334	
Other current liabilities	<u>283,935</u>	<u>133,501</u>	<u>64,561</u>	<u>352,875</u>	
Total non-current liabilities	<u>\$2,103,160</u>	<u>\$1,625,391</u>	<u>\$2,382,661</u>	<u>\$1,345,890</u>	

The Series 2005 revenue refunding capital loan notes require annual principal payments, due July 1, and semiannual interest payments, due January 1 and July 1. Interest rates throughout the term of the capital loan notes are in a range between 2.6% and 3.0%. The capital loan notes are secured by the future net revenues of the Utility. The capital loan notes mature and bear interest as follows:

Year	Series 2005	
	Principal Amount	Interest Amount
2007	\$595,000	\$ 28,660
2008	400,000	12,000
	<u>\$995,000</u>	<u>\$ 40,660</u>

On March 9, 2005, the Utility issued \$1,555,000 Gas Utility Revenue Refunding Capital Loan Notes, Series 2005. The proceeds of the Notes, as well as, the Utility's own funds were used for the redemption of the outstanding Series 1992 revenue bonds. The Utility expended \$1,825,000 to extinguish the debt.

The bond resolution provides certain covenants relating to the collection, segregation, and distribution of revenues from customers, places certain restrictions on future borrowing and leasing or disposition of assets, and requires that minimum insurance coverage be maintained.

(6) Pension and Retirement Benefits

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2006, 2005, and 2004 were \$105,801; 103,146; and \$93,064; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Contractually, qualifying employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age may convert their accrued sick leave value into paid health insurance premiums upon retirement. The Utility recognized liability of \$85,779 and \$101,863; respectively, for the years ended December 31, 2006 and 2005.

(7) Income Tax Status

The Utility is exempt from federal and state income taxes under the applicable tax codes.

(8) Related Party Transactions

The Utility provides gas service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$132,542 and \$116,049 in 2006 and 2005, respectively.

The Utility makes payments in lieu of taxes upon approval by the Board of Trustees to the City of Cedar Falls, Iowa. Expenses were \$200,000 for 2006 and 2005, respectively, which were recorded in administrative and general expenses. Subsequent to December 31, 2006, the Utility's Board of Trustees approved a payment of \$200,000 related to payments in lieu of taxes for 2006.

For the years ended December 31, 2006 and 2005, the Utility earned a management fee of \$21,424 and \$20,800, respectively, from the Municipal Communications Utility for administration, finance, human resources and legal services, which is recorded in miscellaneous nonoperating revenue.

(9) Risk Management

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks.

(9) Risk Management, Continued

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2006 plan year for aggregate claims exceeding \$2,345,816. Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. Changes in the balances of the Utilities liabilities during the past two years are as follows:

	2006	2005
Unpaid Claims and IBNR, beginning of year	\$ 167,475	\$ 162,225
Current year costs including IBNR	2,088,644	1,566,575
Claims Paid	(1,956,119)	(1,561,325)
Unpaid Claims and IBNR, end of year	<u>\$ 300,000</u>	<u>\$ 167,475</u>

The Utility has recorded \$63,000 and \$35,170 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2006 and 2005, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 480 governmental entities participate in the Association. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2006.

Cash and cash equivalents and investments	\$32,250,577
Receivables	1,368,218
Other assets	238,716
Total assets	<u>\$33,857,511</u>
Total liabilities	\$18,465,385
Total equity	15,392,126
Total liabilities and equity	<u>\$33,857,511</u>
Total revenues	\$6,867,019
Total expenses	2,816,878
Distribution to members	-
Net increase in equity	<u>\$4,050,141</u>

There have been no instances where the amount of settlement has exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage from coverage in the prior year.

(10) Commitments and Contingencies

MUNICIPAL GAS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

The Utility has a natural gas transportation contract with a pipeline, which expires in 2022. Total payments include transportation charges and commodity charges. Minimum transportation payments for 2007 are expected to be approximately \$575,950 at current rates.

As of December 31, 2006, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$54,274.



CPAs & BUSINESS ADVISORS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Cedar Falls Utilities – Municipal Gas Utility

We have audited the financial statements of Cedar Falls Utilities – Municipal Gas Utility of Cedar Falls, Iowa (the Utility), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated April 24, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**PEOPLE. PRINCIPLES. POSSIBILITIES.**

[www.eidebailly.com](http://www.eidebailly.com)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility and are reported in Part II of the accompanying Schedule of Findings. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

We noted certain matters that we reported to management of the Utility in a separate letter dated April 24, 2007.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of the Utility and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
April 24, 2007

**CEDAR FALLS UTILITIES – MUNICIPAL GAS UTILITY  
CEDAR FALLS, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2006**

**Part I: Summary of the Independent Auditor's Results:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Other Findings Related to Statutory Reporting:**

- II-A-06 Certified Budget - Disbursements during the year ended December 31, 2006, did not exceed the amounts budgeted.
- II-B-06 Questionable Expenditures - We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-06 Business Transactions - No business transactions between the Utility and Utility officials or employees were noted.
- II-E-06 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- II-H-06 Revenue Bonds - We noted no instances of non-compliance with the provisions of the Utility's revenue bond resolutions.



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Cedar Falls Utilities – Municipal Water Utility

We have audited the accompanying balance sheets of the Municipal Water Utility of Cedar Falls, Iowa (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2007, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

April 24, 2007  
Dubuque, Iowa

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

The following discussion and analysis of the Municipal Water Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the year ended December 31, 2006 and 2005. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

- The Utility's net assets increased as a result of non-operating revenues and capital contributions off set by the operating loss. At December 31, 2006 and 2005, total assets were \$18,829,406 and \$17,402,621, respectively, and total liabilities were \$703,760 and \$731,718, respectively, resulting in net assets of \$18,125,646 and \$16,670,903, respectively.
- The last water rate increase was effective in January of 2005.
- In 2006, operating revenues were essentially unchanged from 2005 at \$2,018,735 while operating expenses increased 6.7% over 2005 to \$2,390,920. In 2005 operating revenues increased 13.9% over 2004 to \$2,017,465 due primarily to the 2005 rate increase while operating expenses increased 5.3 % to \$2,241,511.
- In 2006, the Utility had an operating loss of \$372,185 compared to an operating loss of \$224,046 in 2005.

**Overview of the Financial Statements**

Management's discussion and analysis (MD&A) serves as an introduction to the financial statements, and the MD&A represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

The balance sheets include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

The statements of revenues, expenses and changes in net assets present the results of the Utility's activities (revenues and expenses) over the course of the fiscal year and can provide information about the Utility's recovery of its costs. Retail rates to the Utility's customers are established by the Board of Trustees based on operating costs, debt service requirements, and anticipated capital needs. The fundamental objective of this rate model is to provide adequate revenue to cover all costs.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities. This statement provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

**Condensed Financial Information**

The following condensed financial information serves as the key financial data and indicators for management, monitoring and planning.

**Condensed Balance Sheet Information**

	<u>2006</u>	<u>2005</u>
Current assets	\$ 2,535,903	\$ 2,868,268
Capital assets, net	15,325,203	13,578,053
Other non-current assets	968,300	956,300
Total assets	<u>\$18,829,406</u>	<u>\$17,402,621</u>
Current liabilities	\$ 673,707	\$ 408,468
Non-current liabilities	30,053	323,250
Total liabilities	<u>\$ 703,760</u>	<u>\$ 731,718</u>
Invested in capital assets, net of related debt	\$15,325,203	\$13,578,053
Unrestricted	2,800,443	3,092,850
Total net assets	<u>\$18,125,646</u>	<u>\$16,670,903</u>

**Condensed Revenues, Expenses and Changes in Net Assets**

	<u>2006</u>	<u>2005</u>
Sales of water	\$1,925,322	\$1,951,943
Other	93,413	65,522
Total operating revenues	<u>2,018,735</u>	<u>2,017,465</u>
System operation and maintenance	983,650	953,126
Depreciation and amortization	449,227	402,299
Service and administrative	958,043	886,086
Total operating expenses	<u>2,390,920</u>	<u>2,241,511</u>
Operating income (loss)	<u>(372,185)</u>	<u>(224,046)</u>
Interest income	136,039	103,794
Other, net	444,988	445,606
Total non-operating revenues (expenses)	<u>581,027</u>	<u>549,400</u>
Income before capital contributions	208,842	325,354
Capital contributions	<u>1,245,901</u>	<u>1,548,797</u>
Change in net assets	1,454,743	1,874,151
Net assets, beginning of year	<u>16,670,903</u>	<u>14,796,752</u>
Net assets, end of year	<u>\$18,125,646</u>	<u>\$16,670,903</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

**Financial Analysis**

Current assets decreased 11.6% in 2006 primarily due to the following factors: a decrease in cash and cash equivalents of 58.6 % and an increase in customer accounts receivable of 11.7%.

Current liabilities increased 64.9% in 2006 due to a 102.1 % increase in all accounts payable due to an increase in purchases related to construction projects resulting from residential and commercial development.

Noncurrent liabilities decreased 90.7% in 2006 due to the recognition of revenue for the \$300,000, received in January 2004 as part of the agreement with the Iowa Comprehensive Petroleum Underground Storage Tank Fund Board regarding the site clean up of fuel-contaminated soil surrounding a previously replaced underground gasoline storage tank. As part of the agreement, a well was abandoned and the funds received were used for the replacement of this well and system improvements to increase water production capacity and reliability.

System operation and maintenance expenses increased 3.2% in 2006 primarily due to the increase in expense for distribution lines resulting from an increase in expenses for flushing of mains and hydrants, valve turning program, checking hydrant operation and pressure, checking, and locating water mains.

Service and administrative expenses increased 8.1% in 2006 primarily due to a 29.0% increase of approximately \$71,957 in employee insurance and benefits including health insurance and severance expense. Depreciation expense increased 11.7 % in 2006 resulting from completion of construction projects.

Interest income increased 31.1% in 2006 primarily due to the increase in investment interest rates. Miscellaneous revenue decreased 13.4% primarily due to less cash contributions for capital investments received from developers during 2006 than 2005.

Capital contributions decreased 19.6% in 2006 due to reduction in new developments requiring distribution extensions during the year.

**Capital Assets and Debt Administration**

Net capital assets represent 81.4 % of total assets for the Utility. Net capital assets increased 12.9% from the prior year primarily due to completion of capital projects in 2006. Additional detail on the change in capital assets can be found in Note 4.

The Utility has no outstanding debt as of December 31, 2006.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets  
December 31, 2006 and 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Capital assets: (note 4)		
Capital assets, in service	\$ 21,238,170	\$ 19,398,828
Less accumulated depreciation	<u>6,548,748</u>	<u>6,150,127</u>
	14,689,422	13,248,701
Construction work in progress	<u>635,781</u>	<u>329,352</u>
Net capital assets	<u>15,325,203</u>	<u>13,578,053</u>
Noncurrent assets:		
Noncurrent investments: (note 3)		
Unrestricted	<u>968,300</u>	<u>956,300</u>
Current assets:		
Cash and cash equivalents (note 1)	250,553	604,519
Investments (note 2)	1,849,800	1,850,000
Receivables:		
Customer accounts, less allowance for doubtful		
accounts of \$3,350 in 2006, and \$1,699 in 2005	260,363	233,137
Interest	67,359	62,342
Other	4,059	7,322
Material and supplies	87,647	93,395
Prepayments and other	<u>16,122</u>	<u>17,553</u>
Total current assets	<u>2,535,903</u>	<u>2,868,268</u>
 Total assets	 <u>\$ 18,829,406</u>	 <u>\$ 17,402,621</u>

See accompanying notes to financial statements.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets  
December 31, 2006 and 2005

<u>Liabilities</u>	<u>2006</u>	<u>2005</u>
Current liabilities:		
Accounts payable	\$ 529,779	\$ 262,104
Accrued wages and vacations	94,956	83,227
Other accrued expenses	48,972	63,137
Total current liabilities	<u>673,707</u>	<u>408,468</u>
Noncurrent liabilities: (note 4)		
Deferred credits	-	300,000
Other liabilities	30,053	23,250
Total noncurrent liabilities	<u>30,053</u>	<u>323,250</u>
Total liabilities	<u>703,760</u>	<u>731,718</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	15,325,203	13,578,053
Unrestricted	2,800,443	3,092,850
Total net assets	<u>18,125,646</u>	<u>16,670,903</u>
 Total liabilities and net assets	 <u>\$ 18,829,406</u>	 <u>\$ 17,402,621</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Revenues, Expenses and Changes in Net Assets  
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues: (note 5)		
Sales of water:		
Residential	\$ 1,430,106	\$ 1,424,411
Industrial	29,217	29,094
Commercial	340,082	356,876
Governmental (note 8)	98,593	100,077
Interdepartmental	27,324	41,485
Total sales of water	<u>1,925,322</u>	<u>1,951,943</u>
Other operating revenues	93,413	65,522
Total operating revenues	<u>2,018,735</u>	<u>2,017,465</u>
Operating expenses		
Production:		
Purchased power from affiliated utility	131,636	124,833
Other	192,887	227,581
Distribution	659,127	600,712
Depreciation	449,227	402,299
Customer accounts	189,565	174,666
Customer service and information expenses	18,353	18,851
Sales	14,873	15,207
Administrative and general	667,719	613,559
Taxes other than income taxes	67,533	63,803
Total operating expenses	<u>2,390,920</u>	<u>2,241,511</u>
Operating loss	<u>(372,185)</u>	<u>(224,046)</u>
Nonoperating revenues (expenses):		
Interest income	136,039	103,794
Net increase (decrease) in the fair value of investments	11,800	(19,000)
Miscellaneous revenue (expense), net (note 8)	433,188	464,606
Total nonoperating revenues (expenses)	<u>581,027</u>	<u>549,400</u>
Income (loss) before contributions	<u>208,842</u>	<u>325,354</u>
Capital contributions	<u>1,245,901</u>	<u>1,548,797</u>
Change in net assets	1,454,743	1,874,151
Net assets, beginning of year	<u>16,670,903</u>	<u>14,796,752</u>
Net assets, end of year	<u>\$ 18,125,646</u>	<u>\$ 16,670,903</u>

See accompanying notes to financial statements.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows  
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,437,825	\$ 2,444,208
Cash paid to suppliers	(1,097,971)	(1,194,378)
Cash paid to employees	<u>(576,251)</u>	<u>(551,687)</u>
Net cash provided by operating activities	<u>763,603</u>	<u>698,143</u>
Cash flows from capital and related financing activities:		
Contributions from contractors	11,216	22,233
Acquisition, construction and removal cost of capital assets	(1,352,177)	(986,784)
Proceeds from sale of capital assets	10,512	3,549
Proceeds from sale of land	1,885	-
Reimbursement of utility construction costs	<u>79,974</u>	<u>174,770</u>
Net cash used in capital and related financing activities	<u>(1,248,590)</u>	<u>(786,232)</u>
Cash flows from investing activities:		
Proceeds from maturities of investment securities	1,850,000	1,850,000
Purchase of investment securities	(1,850,000)	(1,850,000)
Interest received	<u>131,022</u>	<u>79,753</u>
Net cash provided by investing activities	<u>131,022</u>	<u>79,753</u>
Net increase (decrease) in cash and cash equivalents	(353,965)	(8,336)
Cash and cash equivalents, beginning of year	<u>604,519</u>	<u>612,855</u>
Cash and cash equivalents, end of year (note 1)	<u>\$ 250,554</u>	<u>\$ 604,519</u>

See accompanying notes to financial statements.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows, Continued  
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (372,185)	\$ (224,046)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation of capital assets	449,227	402,299
Other Income (expense), net	431,303	464,606
(Increase) decrease in accounts receivable	(23,963)	(42,342)
(Increase) decrease in materials and supplies	5,748	(5,653)
(Increase) decrease in prepayments and other	1,431	3,675
Increase (decrease) in accounts payable	267,675	113,888
Increase (decrease) in accrued wages and vacation	11,729	9,171
Increase (decrease) in other accrued expenses	(14,165)	56,835
Increase (decrease) in accrued severance	<u>6,803</u>	<u>(80,290)</u>
Net cash provided by operating activities	<u>\$ 763,603</u>	<u>\$ 698,143</u>
Noncash investing, capital and financing activities:		
Contributions from contractors in aid of construction	<u>\$ 1,234,685</u>	<u>\$ 1,526,564</u>

See accompanying notes to financial statements.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

The Municipal Water Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Energy Regulatory Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 18 - Conservation of Power and Water Resources, Chapter I - Federal Energy Regulatory Commission, Department of Energy.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Utility applies only Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989.

(b) Capital Assets and Depreciation

Capital assets are stated at original cost. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure - 20 to 70 years, buildings and improvements - 30 to 45 years, and equipment - 20 to 85 years. The depreciation provisions were equivalent to an overall composite rate of 2.3% of depreciable assets for 2006 and 2005.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time capital assets are retired, the original cost of the asset plus cost of removal less salvage are charged to accumulated depreciation.

(c) Cash and Investments

Investments are stated at their fair value on the balance sheets. The Utility's investments stated at fair value reflect quoted market prices at the balance sheet date, for U.S. Treasury and government agency debt securities. The cost of certificates of deposit approximates fair value.

The Utility considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. Included in cash and cash equivalents at December 31, 2006 and 2005 was \$250,000 for amounts invested in the Iowa Public Agency Investment Trust (IPAIT).

(d) Inventories

Materials and supplies are valued at average cost. Inventories are recorded as an expenditure at the time individual inventory items are consumed.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

(e) Operating Revenues and Expenses

Operating revenues include revenues resulting from the sale of water and service revenues. Operating expenses include expenses for power production, distribution, depreciation, customer accounts, customer service and information, sales, and administrative and general. Nonoperating revenues and expenses include those derived from capital and non-capital activities, and investing activities.

Revenues from the sale of water are based on billing rates, which are applied to customers' consumption of water. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not yet billed as of December 31, 2006 and 2005, were \$88,942 and \$76,388, respectively, and are recorded in customer accounts receivable.

(f) Capital Contributions

Contributions in aid of construction represent the actual cost of property contributed to the Utility and nonrefundable payments from consumers, which are used to partially offset the cost of the construction of additional capital assets.

(g) Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(h) Estimates

The preparation of the financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

(i) Reclassifications

Reclassifications of prior year's amounts have been made for comparability.

(j) Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based on the total of all four utilities as a whole. During the year, there were no budget amendments.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(2) Cash on Hand, Deposits, and Investments

Cash on Hand. Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2006 was \$27 and 2005 was \$68.

Deposits. At December 31, 2006, the Utility's carrying amount of deposits, including \$1,350,000 of certificates of deposits, was \$1,350,526. At December 31, 2005, the Utility's carrying amount of deposits, including \$1,850,000 of certificates of deposits, was \$2,204,451.

Investments. The utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of December 31, 2006, the Utility had the following investments and maturities. (The Utility assumes callable bonds will not be called):

Investment Type	Investment Maturities (In Years)		
	Less than 1	1 to 3	Total
Federal Agency Obligations	\$ 499,800	\$ 968,300	\$1,468,100

As of December 31, 2005, the Utility had the following investments and maturities. (The Utility assumes callable bonds will not be called):

Investment Type	Investment Maturities (In Years)		
	Less than 1	1 to 3	Total
Federal Agency Obligations	\$ -	\$ 956,300	\$ 956,300

In addition, the Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$250,000 at December 31, 2006 and 2005, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk. The Utility's investment policy limits the investments of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk. The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during the year. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of Credit Risk. The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during the year.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(2) Cash on Hand, Deposits, and Investments, Continued

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utility had no custodial risk with regards to investments, since all investments were held by the Utility or its agent in the Utility's name.

A reconciliation of the Utility's cash and cash equivalents and investments as shown on the balance sheets follows:

	2006	2005
Cash on hand	\$ 27	\$ 68
Carrying amount of deposits	1,350,526	2,204,451
Carrying amount of federal agency obligations	1,468,100	956,300
Carrying mount of Iowa Public Agency Investment Trust	250,000	250,000
Total	<u>\$3,068,653</u>	<u>\$3,410,819</u>
Current Assets		
Cash and cash equivalents	\$ 250,553	\$ 604,519
Investments	1,849,800	1,850,000
Non-current Investments		
Unrestricted	<u>968,300</u>	<u>956,300</u>
Total	<u>\$3,068,653</u>	<u>\$3,410,819</u>

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(3) Capital Assets

A summary of capital assets activity for the years ended December 31, 2006 and 2005 follows:

2006	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 63,581	\$ -	\$ 115	\$ 63,466
Construction, Work-in-progress	329,352	367,901	61,472	635,781
Total capital assets, not being depreciated	392,933	367,901	61,587	699,247
Capital assets, being depreciated:				
Infrastructure	18,513,891	1,840,241	58,252	20,295,880
Buildings and improvements 430,136	420,751	4,766	1,044	424,473
Equipment 391,217 9348	400,605	55,807	2,061	454,351
Total capital assets, being depreciated	19,335,247	1,900,814	61,357	21,174,704
Less accumulated depreciation	6,150,127	460,092	61,471	6,548,748
Total capital assets, being depreciated, net	13,185,120	1,440,722	(114)	14,625,956
Capital assets, net	\$13,578,053	\$1,808,623	\$ 61,473	\$15,325,203
2005	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 63,581	\$ -	\$ -	\$ 63,581
Construction, Work-in-progress	135,811	2,338,577	2,145,036	329,352
Total capital assets, not being depreciated	199,392	2,338,577	2,145,036	392,933
Capital assets, being depreciated:				
Infrastructure	16,607,886	1,927,925	21,920	18,513,891
Buildings and improvements	235,363	185,388	-	420,751
Equipment	369,461	31,724	580	400,605
Total capital assets, being depreciated	17,212,710	2,145,037	22,500	19,335,247
Less accumulated depreciation	5,766,778	405,848	22,499	6,150,127
Total capital assets, being depreciated, net	11,445,932	1,739,189	1	13,185,120
Capital assets, net	\$11,645,324	\$4,077,766	\$2,145,037	\$13,578,053

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(4) Non-current Liabilities

Non-current liabilities activity for the years ended December 31, 2006 and 2005 was as follows:

2006	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Accrued severance & retirement benefits	\$ 23,250	\$ 15,908	\$ 9,105	\$ 30,053	\$ -
Other liabilities	300,000	-	300,000	0	-
Total non-current liabilities	\$ 323,250	\$ 15,908	\$ 309,105	\$ 30,053	\$ -

  

2005	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Accrued severance & retirement benefits	\$ 103,540	\$ 15,242	\$ 95,532	\$ 23,250	\$ -
Other liabilities	300,000	-	-	300,000	-
Total non-current liabilities	\$ 403,540	\$ 15,242	\$ 95,532	\$ 323,250	\$ -

In January 2004, the Utility received \$300,000 as part of the agreement with the Iowa Comprehensive Petroleum Underground Storage Tank Fund Board regarding the site clean up of fuel-contaminated soil surrounding a previously replaced underground gasoline storage tank. As part of the agreement, a well was abandoned and the funds received were used for the replacement of this well and system improvements to increase water production capacity and reliability.

(5) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2006, 2005 and 2004, were \$55,119; \$51,924; and \$50,737; respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Contractually, qualifying employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age may convert their accrued sick leave value into paid health insurance premiums upon retirement. The Utility recognized liability of \$3,123 and \$10,847; respectively, for the years ended December 31, 2006 and 2005.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(6) Income Tax Status

The Utility is exempt from federal and state income taxes under the applicable tax codes.

(7) Related Party Transactions

The Utility provides water service to the City of Cedar Falls, Iowa. Operating revenues from the service provided amounted to \$28,199 and \$53,469 in 2006 and 2005, respectively.

The Utility also provides billing and collection services to the City for the City's sanitary sewer system and garbage and refuse service. Revenues from the service provided amounted to \$118,654 in 2006 and \$87,600 in 2005, and are recorded in miscellaneous nonoperating revenue.

For the years ended December 31, 2006 and 2005, the Utility earned a management fee of \$1,863 and \$1,690, respectively, from the Municipal Communications Utility for administration, finance, human resources and legal services, which is recorded in miscellaneous nonoperating revenue.

(8) Risk Management

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks.

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2006 plan year for aggregate claims exceeding \$2,345,816. Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. Changes in the balances of the Utilities liabilities during the past two years are as follows:

	2006	2005
Unpaid claims and IBNR, beginning of year	\$ 167,475	\$ 162,225
Current year costs including IBNR	2,088,644	1,566,575
Claims paid	(1,956,119)	(1,561,325)
Unpaid claims and IBNR, end of year	<u>\$ 300,000</u>	<u>\$ 167,475</u>

The Utility has recorded \$27,000 and \$15,073 in accounts payable for its share of these unpaid claims and IBNR at December 31, 2006 and 2005, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 470 governmental entities participate in the Association. A board of trustees consisting of seven members is elected by the members participating in the Association to manage and conduct the business and affairs of the Association.

MUNICIPAL WATER UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(8) Risk Management, Continued

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2006.

Cash and cash equivalents and investments	\$32,250,577
Receivables	1,368,218
Other assets	<u>238,716</u>
Total assets	<u>\$33,857,511</u>
Total liabilities	\$18,465,385
Total equity	<u>15,392,126</u>
Total liabilities and equity	<u>\$33,857,511</u>
Total revenues	\$6,867,019
Total expenses	2,816,878
Distribution to members	<u>-</u>
Net increase in equity	<u>\$4,050,141</u>

There have been no instances where the amount of settlement has exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage in the prior year.

(9) Commitments and Contingencies

As of December 31, 2006, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$402,597.

(10) Subsequent Event

Effective January 1, 2007, the Board of Trustees approved a general water rate increase. The average rate increase is approximately 9.0% for all customer classes.



CPAs & BUSINESS ADVISORS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Cedar Falls Utilities – Municipal Water Utility

We have audited the financial statements of Cedar Falls Utilities – Municipal Water Utility of Cedar Falls, Iowa (the Utility), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated April 24, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility and are reported in Part II of the accompanying Schedule of Findings. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

We noted certain matters that we reported to management of the Utility in a separate letter dated April 24, 2007.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of the Utility and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Eric Sully LLP".

Dubuque, Iowa  
April 24, 2007

**CEDAR FALLS UTILITIES – MUNICIPAL WATER UTILITY  
CEDAR FALLS, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2006**

**Part I: Summary of the Independent Auditor's Results:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Other Findings Related to Statutory Reporting:**

- II-A-06 Certified Budget - Disbursements during the year ended December 31, 2006, did not exceed the amounts budgeted.
- II-B-06 Questionable Expenditures - We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-06 Business Transactions - No business transactions between the Utility and Utility officials or employees were noted.
- II-E-06 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Cedar Falls Utilities – Municipal Communications Utility

We have audited the accompanying balance sheets of the Municipal Communications Utility of Cedar Falls, Iowa (the Utility) (a component unit of the City of Cedar Falls, Iowa) as of December 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2007, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 1 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

April 24, 2007  
Dubuque, Iowa

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

The following discussion and analysis of the Municipal Communications Utility (Utility) of the City of Cedar Falls, Iowa's financial performance provides an overview of the Utility's financial activities for the year ended December 31, 2006 and 2005. This information should be read in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

**Financial Highlights**

- The Utility's net assets increased as a result of operating income offset by non-operating expenses. At December 31, 2006 and 2005, total assets were \$10,861,428 and \$9,964,120, respectively, and total liabilities were \$7,960,190 and \$8,739,216, respectively, resulting in net assets of \$2,901,238 in 2006 and surplus net assets of \$1,224,904 in 2005.
- In 2006 operating revenues increased 9% to \$8,607,391 while operating expenses increased 8.9% to \$6,866,930. In 2005 operating revenues increased 12% to \$7,893,571 while operating expenses increased 8% to \$6,308,337.
- In 2006, the Utility had operating income of \$1,740,461 compared to operating income of \$1,585,234 in 2005.

**Overview of the Financial Statements**

Management's discussion and analysis (MD&A) serves as an introduction to the financial statements, and the MD&A represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using full accrual accounting methods as utilized by similar entities in the private sector.

The balance sheets include the Utility's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and flexibility of the Utility.

The statements of revenues, expenses and changes in net assets present the results of the Utility's activities (revenues and expenses) over the course of the fiscal year and can provide information about the Utility's recovery of its costs. Retail rates to purchase communications services are based on rates established by the Board of Trustees based on operating costs, debt service requirements, and anticipated capital needs. A fundamental objective of this rate model is to provide adequate revenue to cover all expenses.

The statements of cash flows present cash receipts, cash disbursements, and net changes in cash resulting from operations, noncapital financing activities, capital and related financing activities and investing activities. This statement provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, and obligations.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

**Condensed Financial Information**

The following condensed financial information serves as the key financial data and indicators for management, monitoring and planning.

**Condensed Balance Sheet Information**

	<u>2006</u>	<u>2005</u>
Current assets	\$ 2,268,761	\$ 1,751,044
Capital assets, net	7,668,813	7,275,276
Other non-current assets	923,854	937,800
Total assets	<u>\$10,861,428</u>	<u>\$ 9,964,120</u>
Current liabilities	\$ 1,607,852	\$ 1,550,297
Non-current liabilities	184,083	75,395
Long-term debt	6,168,255	7,113,524
Total liabilities	<u>\$ 7,960,190</u>	<u>\$ 8,739,216</u>
Invested in capital assets, net of related debt	\$ 555,558	\$ (758,247)
Restricted	955,917	953,833
Unrestricted	1,389,763	1,029,318
Total net assets	<u>\$ 2,901,238</u>	<u>\$ 1,224,904</u>

**Condensed Revenues, Expenses and Changes in Net Assets**

	<u>2006</u>	<u>2005</u>
Cable television	\$ 4,511,519	\$ 4,019,602
High speed data communications	4,095,872	3,873,969
Total operating revenues	<u>8,607,391</u>	<u>7,893,571</u>
System operation and maintenance	3,990,721	3,747,347
Depreciation	1,270,347	1,201,525
Service and administrative	1,605,862	1,359,465
Total operating expenses	<u>6,866,930</u>	<u>6,308,337</u>
Operating income (loss)	1,740,461	1,585,234
Interest expense	(319,646)	(360,340)
Other, net	255,519	30,617
Total non-operating revenues (expenses)	<u>(64,127)</u>	<u>(329,723)</u>
Change in net assets	1,676,334	1,255,511
Net assets (deficit), beginning of year	<u>1,224,904</u>	<u>(30,607)</u>
Net assets (deficit), end of year	<u>\$ 2,901,238</u>	<u>\$ 1,224,904</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

**Financial Analysis**

Current assets increased 29.6% primarily due to a 128.3% increase in cash and short-term investments and a 9.9 %increase in customer accounts receivable. Capital assets increased 5.4% due to continued residential and commercial development.

Current liabilities increased 3.7%in 2006 primarily from the \$34,499 increase in accounts payable and a \$25,000 increase in current installments of long-term debt.

Non-current liabilities decreased 11.6% in 2006 primarily due to a reduction of long term debt, less current installments. Customer Advances for Construction increased by 345.8 %, \$107,000, due to increased developer contributions for installation of fiber to the premise.

Total net assets increased to \$2,901,238 in 2006 from \$1,224,904 in 2005, primarily due to the 2006 total change in net assets of \$1,676,334, which was due primarily to increases in the number of subscribers. Invested in capital assets, net of related debt is a positive balance due to capital assets being funded by operations. Capital assets are depreciated between 7 to 20 years and the debt repayment is scheduled through 2016. Capital assets are depreciating at a larger proportion than the debt repayment schedule. Unrestricted net assets is a positive balance as a reflection of the Utility's net income during 2006 and 2005.

Cable television operating revenues increased 12.2% in 2006. This is primarily due to an increase in the number of subscribers by 575 in 2006.

High speed data communications operating revenues increased 5.7% in 2006. An increase of 672 subscribers in 2006 accounts for the increase. Also, high speed data communications revenues billed to other communities for transport and access has increased 21.0%. Wholesale CyberNet revenues decreased by 32.0%, \$27,285, in 2006 due to the loss of customers. Basic Service revenues decreased 7.0% in 2006 primarily because of a rate decrease effective 12/01/05 due to changing the Basic tier to a Basic Lifeline tier. This change moved channels and, thus, programming costs from Basic to Basic Plus. As a result, the Basic rate was reduced by \$1.00 a subscriber and the Basic Plus rate was increased by \$1.00 per subscriber. Although Basic revenues decreased, Basic Plus revenues increased 12.0% in 2006 due to the rate increase explained previously and an increase in subscribers of 477 in 2006.

System operation and maintenance expenses increased 6.5% in 2006 primarily due to Cable TV programming costs increases of \$324,711 or 14.5% which is attributable to an increase of 575 subscribers during 2006 and the continued increase in programming costs of 8-15% annually. Telecommunications - Corporate Operation increased over \$114,400, 16%, in 2006 primarily due to an increase of \$54,455 in employee insurance and benefits which includes health insurance and severance expense. Interest income increased/decreased nearly 84% in 2006 due to improved interest rates being received on investments. Interest expense decreased 9.0% in 2006 primarily due to higher principal payments on long-term debt and less interest paid in 2006. Other non-operating income increased \$89,156 during 2006 primarily due to Tax Increment Financing (TIF) monies being received in 2006 from the City of Cedar Falls.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Management Discussion and Analysis  
December 31, 2006 and 2005

**Capital Assets and Debt Administration**

Capital assets represent 70.6% of total assets for the Utility. Net capital assets increased 5.4% from the prior year primarily due to continued strong residential and commercial development. Additional detail on the change in capital assets can be found in Note 4.

The Utility's total debt service in 2006, excluding the outstanding loan with the Municipal Electric Utility, was \$850,661 compared to \$842,036 during 2005.

The Utility has an outstanding loan with the Municipal Electric Utility totaling \$2,473,090 and \$2,783,090 at December 31, 2006 and 2005 respectively. Additional detail on the outstanding loan can be found in Note 5.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Balance Sheets  
Years ended December 31, 2006 and 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and short-term investments	\$ 541,949	\$ 237,391
Receivables:		
Customer accounts, less allowance for doubtful accounts of \$30,100 in 2006 and \$19,527 in 2005	1,152,894	1,048,681
Interest	38,607	27,492
Other	123,711	85,179
Material and supplies	328,784	265,722
Prepayments and other	11,799	15,691
Restricted - cash (note 2)	71,017	70,888
Total current assets	<u>2,268,761</u>	<u>1,751,044</u>
Noncurrent assets:		
Noncurrent investments: (note 3)		
Restricted (note 2)	903,000	903,000
Total noncurrent investments	<u>903,000</u>	<u>903,000</u>
Capital assets: (note 4)		
Capital assets, in service	15,355,151	14,149,608
Less accumulated depreciation	7,980,114	7,007,987
	<u>7,375,037</u>	<u>7,141,621</u>
Construction work in progress	293,776	133,655
Net capital assets	<u>7,668,813</u>	<u>7,275,276</u>
Deferred costs, net of amortization	<u>20,854</u>	<u>34,800</u>
Total noncurrent assets	<u>8,592,667</u>	<u>8,213,076</u>
 Total assets	 <u>\$ 10,861,428</u>	 <u>\$ 9,964,120</u>

See accompanying notes to financial statements.

Years ended December 31, 2006 and 2005

- 6 -

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Revenues, Expenses and Changes in Net Assets  
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues: (note 5)		
Cable system revenues	\$ 4,511,519	\$ 4,019,602
Local private line revenue	146,006	150,994
Data services revenue	3,742,601	3,491,726
Network access revenue	<u>207,265</u>	<u>231,249</u>
Total operating revenues	<u>8,607,391</u>	<u>7,893,571</u>
Operating expenses:		
Plant specific and programming	3,321,033	3,034,577
Depreciation	1,270,347	1,201,525
Plant nonspecific	669,688	712,770
Customer operations	294,546	427,484
Sales	482,194	217,298
Corporate operations (note 8)	<u>829,122</u>	<u>714,683</u>
Total operating expenses	<u>6,866,930</u>	<u>6,308,337</u>
Operating income (loss)	<u>1,740,461</u>	<u>1,585,234</u>
Nonoperating revenues (expenses):		
Interest income	83,318	45,270
Miscellaneous revenue (expense), net	172,201	(14,653)
Interest expense on long-term debt (note 5)	(252,385)	(276,035)
AFUDC (note 1)	16,574	9,280
Interest expense on affiliated note payable (note 5 and 8)	<u>(83,835)</u>	<u>(93,585)</u>
Total nonoperating revenues (expenses)	<u>(64,127)</u>	<u>(329,723)</u>
Change in net assets	1,676,334	1,255,511
Net assets (deficit), beginning of year	<u>1,224,904</u>	<u>(30,607)</u>
Net assets end of year	<u>\$ 2,901,238</u>	<u>\$ 1,224,904</u>

See accompanying notes to financial statements.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows  
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 8,575,075	\$ 7,668,546
Cash paid to suppliers	(4,816,132)	(4,385,474)
Cash paid to employees	<u>(804,692)</u>	<u>(738,782)</u>
Net cash provided by operating activities	<u>2,954,251</u>	<u>2,544,290</u>
Cash flows from capital and related financing activities:		
Principal payments on Note Payable	(310,000)	(310,000)
Proceeds from issuance of long-term debt	(610,000)	(580,000)
Proceeds from customer advances for construction	107,000	-
Acquisition, construction		
and removal cost of capital assets	(1,732,821)	(1,173,183)
Proceeds from sale of capital assets	1,378	1,583
Reimbursement of utility construction costs	152,017	39,128
Interest paid Note Payable	(88,679)	(98,151)
Interest paid on LTD	<u>(240,662)</u>	<u>(262,036)</u>
Net cash used in capital and related		
financing activities	<u>(2,721,767)</u>	<u>(2,382,659)</u>
Cash flows from investing activities:		
Proceeds from maturities of investment securities	903,000	903,000
Purchase of investment securities	(903,000)	(903,000)
Interest received	<u>72,203</u>	<u>32,185</u>
Net cash provided by investing activities	<u>72,203</u>	<u>32,185</u>
Net increase in cash and cash equivalents	304,687	193,816
Cash and cash equivalents, beginning of year	<u>308,279</u>	<u>114,463</u>
Cash and cash equivalents, end of year (note 1)	<u>\$ 612,966</u>	<u>\$ 308,279</u>

See accompanying notes to financial statements.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Statements of Cash Flows, Continued  
Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 1,740,461	\$ 1,585,234
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	1,270,347	1,201,525
Other income (expense), net		
Amortization of advance lease payments	-	(26,425)
(Increase) decrease in accounts receivable	(142,745)	(183,947)
(Increase) decrease in materials and supplies	(63,062)	(23,431)
(Increase) decrease in prepayments and other	3,892	10,682
Increase (decrease) in accounts payable	34,499	7,448
Increase (decrease) in accrued wages and vacation	1,286	6,922
Increase (decrease) in other accrued liabilities	3,569	(28,282)
Increase (decrease) in accrued severance	<u>1,688</u>	<u>9,217</u>
Net cash provided by operating activities	<u>\$ 2,849,935</u>	<u>\$ 2,558,943</u>

See accompanying notes to financial statements.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Accounting

The Municipal Communications Utility (Utility) of the City of Cedar Falls, Iowa is a separate and distinct city utility and is chartered under Iowa Code Section 388. The Utility is a component unit of the City of Cedar Falls, Iowa. The Utility was formed to engage in the development and operation of a broadband communications system and the marketing of related services such as cable television and high-speed data communications. The Utility's rates are set by its governing board. The Utility follows the accounting practices prescribed through the Federal Communications Commission for regulated utilities and proprietary fund accounting for governmental entities under accounting principles generally accepted in the United States of America.

The Utility, as a regulated utility, follows the Code of Federal Regulations Title 47 - Telecommunication, Chapter I - Federal Communications Commission.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Utility applies only Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989.

(b) Cash and Investments

All investments held are certificates of deposit where cost approximates fair value.

The Utility considers all highly liquid investments with maturity of three months or less at purchase to be cash equivalents for purposes of the statements of cash flows.

(c) Inventories

Materials and supplies are valued at average cost. Inventories are recorded as an expenditure at the time individual inventory items are consumed.

(d) Capital Assets and Depreciation

Capital assets are stated at original cost, including an allowance for funds used during construction. The allowance for funds used during construction (AFUDC) represents the estimated cost of funds used for construction purposes. AFUDC was capitalized on utility construction at a rate of 4.92% in 2006 and 2005. Depreciation of capital assets in service is calculated on a composite straight-line method at rates based on estimated service lives and salvage values of several classes of capital assets. The range of estimated service lives for the classes of capital assets are as follows: infrastructure - 7 to 20 years and equipment - 20 years. The depreciation provision was equivalent to an overall composite rate of 8.98% and 8.88% of depreciable assets for 2006 and 2005, respectively.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time capital assets are retired, the original cost of the asset plus cost of removal less salvage are charged to accumulated depreciation.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

(e) Operating Revenues and Expenses

Operating revenues include revenues resulting from the sale of products and services. Operating expenses include expenses for plant specific and programming, depreciation, plant nonspecific, customer operations, sales, and corporate operations. Nonoperating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities and investing activities.

Revenues are based on billing rates, which are applied to customers' consumption of communications services. The Utility records estimated unbilled revenue at the end of accounting periods. Revenues earned, but not billed at December 31, 2006 and 2005, were \$398,687 and \$364,812, respectively.

(f) Deferred Costs

Organizational costs and other deferred costs are amortized over a five-year period.

Debt discount, debt premium and debt issue costs are amortized over the life of the debt using the effective interest method.

(g) Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(h) Estimates

The preparation of the financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

(i) Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based on the total of all four utilities as a whole. During the year, there were no budget amendments.

(j) Reclassifications

Reclassifications of prior year's amounts have been made for comparability.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(2) Restricted Assets

Restricted assets represent monies set aside under the terms of the bond resolution relating to the Series 1999 Capital Loan Notes. In accordance with the covenants of the bond resolution, the monies are segregated into various amounts.

The composition of these amounts at December 31, 2006 and 2005 was as follows:

	2006	2005
Current Assets - Restricted		
Bond & Interest Fund	\$ 71,017	\$ 70,888
Restricted - Cash	71,017	70,888
Non-current Assets - Restricted		
Bond Reserve Fund	403,000	403,000
Improvement & Extension Fund	500,000	500,000
Restricted non-current investments	903,000	903,000
Total restricted assets	\$ 974,017	\$ 973,888

The monies deposited into the various accounts have been invested in interest-bearing securities as required by the bond resolution. Amounts deposited in the above funds may only be used for the purposes as set forth in the bond resolution and as a result are classified as restricted.

(3) Cash on Hand, Deposits, and Investments

Cash on Hand. Cash on hand represents petty cash funds used for current operating purposes. The carrying amount at December 31, 2006 was \$36 and 2005 was \$75.

Deposits. At December 31, 2006, the Utility's carrying amount of deposits, including \$903,000 of certificates of deposits, was \$1,515,930. At December 31, 2005, the Utility's carrying amount of deposits, including \$903,000 of certificates of deposits, was \$1,211,204.

Investments. The utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United State government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk. The Utility's investment policy limits the investments of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk. The Utility's investment policy limits investments in commercial paper and other corporate debt to the top two highest classifications. The Utility did not invest in any commercial paper or other corporate debt during the year. The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(3) Cash on Hand, Deposits, and Investments, Continued

Concentration of Credit Risk. The Utility's investment policy does not allow for a prime bankers' acceptance or commercial paper and other corporate debt balances to be greater than ten percent of its total deposits and investments. The policy also limits the amount that can be invested in a single issue to five percent of its total deposits and investments. The Utility held no such investments during the year.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. The Utility's deposits are entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Utility had no custodial risk with regards to investments, since all investments were held by the Utility or its agent in the Utility's name.

A reconciliation of the Utility's cash and cash equivalents and investments as shown on the balance sheets follows:

	2006	2005
Cash on hand	\$ 36	\$ 75
Carrying amount of deposits	1,515,930	1,211,204
Total	<u>\$1,515,966</u>	<u>\$1,211,279</u>
Current Assets		
Cash & cash equivalents	\$ 541,949	\$ 237,391
Restricted cash	71,017	70,888
Non-current investments		
Restricted	<u>903,000</u>	<u>903,000</u>
Total	<u>\$1,515,966</u>	<u>\$1,211,279</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(4) Capital Assets

A summary of capital assets activity for the years ended December 31, 2006 and 2005 follows:

2006	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Construction,				
Work-in-progress	\$ 133,655	\$ 470,159	\$ 310,038	\$ 293,776
Total capital assets, not being depreciated	133,655	470,159	310,038	293,776
Capital assets, being depreciated:				
Infrastructure	13,900,942	1,499,736	310,039	15,090,639
Equipment	248,666	15,846	-	264,512
Total capital assets, being depreciated	14,149,608	1,515,582	310,039	15,355,151
Less accumulated depreciation	7,007,987	1,285,812	313,685	7,980,114
Total capital assets, being depreciated, net	7,141,621	229,770	(3,646)	7,375,037
Capital assets, net	<u>\$7,275,276</u>	<u>\$ 699,929</u>	<u>\$ 306,392</u>	<u>\$7,668,813</u>
2005	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital Assets, not being depreciated:				
Construction,				
Work-in-progress	\$ 66,088	\$1,163,133	\$1,095,566	\$ 133,655
Total capital assets, not being depreciated	66,088	1,163,133	1,095,566	133,655
Capital assets, being depreciated:				
Infrastructure	13,224,421	1,088,749	412,228	13,900,942
Equipment	241,850	6,816	-	248,666
Total capital assets, being depreciated	13,466,271	1,095,565	412,228	14,149,608
Less accumulated depreciation	6,197,308	1,222,988	412,309	7,007,987
Total capital assets, being depreciated, net	7,268,963	(127,423)	(81)	7,141,621
Capital assets, net	<u>\$7,335,051</u>	<u>\$1,035,710</u>	<u>\$1,095,485</u>	<u>\$7,275,276</u>

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(5) Non-current Liabilities

Non-current liabilities activity for the years ended December 31, 2006 and 2005 was as follows:

2006	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 1998 general obligation bonds	\$ 480,000	\$ -	\$ 35,000	\$445,000	\$ 40,000
Series 1999 general obligation bonds	475,000	-	45,000	430,000	45,000
Series 2002 general obligation bonds	1,470,000	-	275,000	1,195,000	280,000
Note payable to the Municipal Electric Utility	2,783,090	-	310,000	2,473,090	310,000
Series 1999 capital loan notes	2,830,000	-	255,000	2,575,000	270,000
Unamortized discount on debt	(3,891)	-	(1,012)	(2,879)	-
Unamortized premium on debt	(675)	-	1,281	(1,956)	-
	<u>8,033,524</u>	<u>-</u>	<u>920,269</u>	<u>7,113,255</u>	<u>\$945,000</u>
Current installments of long-term debt	(920,000)	(25,000)	-	(945,000)	
Long-term debt, less current installments	<u>7,113,524</u>	<u>(25,000)</u>	<u>920,269</u>	<u>6,168,255</u>	
Other non-current liabilities:					
Customer advances for construction	30,939	109,000	2,000	137,939	
Accrued severance benefits	44,456	9,823	8,135	46,144	
Non-current liabilities	<u>75,395</u>	<u>118,823</u>	<u>10,135</u>	<u>184,083</u>	
Total non-current liabilities	<u>\$7,188,919</u>	<u>\$ 93,823</u>	<u>\$ 930,404</u>	<u>\$6,352,338</u>	

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(5) Non-current Liabilities, Continued

2005	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 1998 general obligation bonds	\$ 515,000	\$ -	\$ 35,000	\$ 480,000	\$ 35,000
Series 1999 general obligation bonds	515,000	-	40,000	475,000	45,000
Series 2002 general obligation bonds	1,730,000	-	260,000	1,470,000	275,000
Note payable to the Municipal Electric Utility	3,093,090	-	310,000	2,783,090	310,000
Series 1999 capital loan notes	3,075,000	-	245,000	2,830,000	255,000
Unamortized discount on debt	(4,974)	-	(1,083)	(3,891)	-
Unamortized premium on debt	2,181	-	2,856	(675)	-
	<u>8,925,297</u>	<u>-</u>	<u>891,773</u>	<u>8,033,524</u>	<u>\$920,000</u>
Current installments of long-term debt	(890,000)	(30,000)	-	(920,000)	
Long-term debt, less current installments	<u>8,035,297</u>	<u>(30,000)</u>	<u>891,773</u>	<u>7,113,524</u>	
Non-current advance lease payments	26,425	-	26,425	-	
Current advance lease payments	(26,425)	-	(26,425)	-	
Non-current advance lease payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Other non-current liabilities:					
Customer advances for construction	30,939	-	-	30,939	
Accrued severance benefits	35,239	9,217	-	44,456	
Non-current liabilities	<u>66,178</u>	<u>9,217</u>	<u>-</u>	<u>75,395</u>	
Total non-current liabilities	<u>\$8,101,475</u>	<u>(\$20,783)</u>	<u>\$ 891,773</u>	<u>\$7,188,919</u>	

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(5) Non-current Liabilities, Continued

All general obligation (G.O.) bonds have been issued by the City on behalf of the Utility. The (G.O.) bonds require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the bonds are in a range between 2.5% and 5.50%. The total debt service obligations over the remaining term of the bonds are as follows:

Year	Series 1998 Communications General Obligation Bonds		Series 1999 Communications General Obligation Bonds		Series 2002 Communications General Obligation Bonds	
	December 1 Principal Amount	4.30%-4.90% Interest Amount	December 1 Principal Amount	4.35%-5.15% Interest Amount	December 1 Principal Amount	2.50%-3.60% Interest Amount
2007	\$ 40,000	\$ 21,240	\$ 45,000	\$ 21,348	\$ 280,000	\$ 39,329
2008	40,000	19,440	50,000	19,210	295,000	30,929
2009	40,000	17,600	50,000	16,810	305,000	21,710
2010	45,000	15,720	50,000	14,385	315,000	11,340
2011	90,000	13,583	55,000	11,935	-	-
2012-						
2013	190,000	13,917	180,000	18,940	-	-
	<u>\$ 445,000</u>	<u>\$ 101,500</u>	<u>\$ 430,000</u>	<u>\$ 102,628</u>	<u>\$1,195,000</u>	<u>\$ 103,308</u>

The Series 1999 capital loan notes require annual principal payments, due December 1, and semiannual interest payments, due June 1 and December 1. Interest rates throughout the term of the notes are in a range between 4.6% and 5.5%. The debt is secured by the future net revenues of the Utility.

The total debt service obligations over the remaining term of the notes are as follows:

Year	Series 1999 Communications Capital Loan Notes	
	December 1 Principal Amount	4.60%-5.50% Interest Amount
2007	\$ 270,000	\$ 135,293
2008	285,000	122,062
2009	295,000	107,813
2010	310,000	92,767
2011	325,000	76,648
2012-2014	1,090,000	121,115
	<u>\$ 2,575,000</u>	<u>\$ 655,698</u>

The bond resolution provides certain covenants relating to the collection, segregation and distribution of revenues from customers; places certain restrictions on future borrowing and leasing or disposition of assets; and requires that minimum insurance coverage be maintained.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(5) Non-current Liabilities, Continued

The Board of Trustees of the Municipal Electric Utility authorized a loan to be extended to the Utility under Resolutions No. 2759, 2840, 2939, 2994, and 3086. The December 31, 2006 and 2005 outstanding balances on this loan were \$1,848,090 and \$2,033,090, respectively, bearing interest at 3.1%. The Board of Trustees of the Municipal Electric Utility approved a loan be extended to the Utility under Resolution No. 3497. The December 31, 2006 and 2005 outstanding balances on this loan were \$625,000 and \$750,000, respectively, bearing interest at 3.1%. Semiannual debt service payments are required on January 1 and July 1. Total debt service requirements are as follows:

Year	Notes Payable Electric Utility	
	Principal Amount	Interest Amount
2007	\$ 310,000	\$ 79,070
2008	310,000	69,552
2009	310,000	59,764
2010	310,000	50,240
2011	310,000	40,630
2012-2016	923,090	100,146
	<u>\$2,473,090</u>	<u>\$399,402</u>

(6) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions for the years ended December 31, 2006, 2005, and 2004, were \$77,117; \$67,804; and \$63,318, respectively, equal to the required contributions for each year.

In accordance with the Code of Iowa Section 509A, the Utility allows retiring employees to continue health insurance coverage on the self-funded health insurance plan at the employees' own cost until eligible for Medicare benefits. Contractually, qualifying employees with 20 years of Utility service, 88 IPERS points and having reached 55 years of age may convert their accrued sick leave value into paid health insurance premiums upon retirement. The Utility recognized liability of \$16,089 and \$20,741; respectively, for the years ended December 31, 2006 and 2005.

(7) Income Tax Status

The Utility is exempt from federal and state income taxes under the applicable tax codes.

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

(8) Related Party Transactions

The Utility provides communications service to the City. Operating revenues from the service provided amounted to \$51,480 and \$37,559 in 2006 and 2005, respectively.

Outstanding loan balances from the Municipal Electric Utility are \$2,473,090, and \$2,783,090 as of December 31, 2006, and 2005, respectively. Interest accrues on the loan at 3.1%, and is paid semi-annually during January and July. Annual principal payments continue through 2016 (see note 5). Accrued interest payable was \$41,196 and \$46,040 at December 31, 2006 and 2005, respectively.

The Utility pays the Municipal Electric Utility, the Municipal Gas Utility and the Municipal Water Utility a management fee for administration, finance, human resources and legal services as part of the program to equitably allocate Communications costs. For the years ended December 31, 2006 and 2005, the Utility recorded a management fee to the Municipal Electric Utility of \$69,863 and \$67,510, respectively; the Municipal Gas Utility of \$21,424 and \$20,800, respectively; and the Municipal Water Utility of \$1,863 and \$1,690, respectively.

See note 5 for description of debt with the City. The interest paid to the City was \$93,129 and \$102,989 for the years ended December 31, 2006 and 2005, respectively. The accrued interest related to this debt was \$6,826 and \$7,761 at December 31, 2006 and 2005, respectively.

(9) Risk Management

The Cedar Falls Municipal Electric, Gas, Water, and Communications Utilities (Utilities) are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utilities purchase commercial insurance for claims related to these risks.

The Utilities maintain a risk management account for risks related to their self-funded medical insurance plan. The risk management account provides employee health insurance coverage for the Utilities' employees and participating retirees. The Utilities self-fund the first \$60,000 of claims per individual and have insurance for claims above this amount. In addition, the Utilities have aggregate stop loss coverage for the 2006 plan year for aggregate claims exceeding \$2,345,816. Liabilities of the risk management account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. Changes in the balances of the Utilities liabilities during the past two years are as follows:

	2006	2005
Unpaid claims and IBNR, beginning of year	\$ 167,475	\$ 162,225
Current year costs including IBNR	2,088,644	1,566,575
Claims paid	(1,956,119)	(1,561,325)
Unpaid claims and IBNR, end of year	<u>\$ 300,000</u>	<u>\$ 167,475</u>

The Utility has recorded \$36,000 and \$20,097 in accounts payable for its share of these unpaid claims at December 31, 2006 and 2005, respectively.

The Utilities are a member of the Iowa Municipalities Workers' Compensation Association (the Association), which was established to provide members a group self-insurance program for their workers' compensation liabilities. Approximately 470 governmental entities participate in the Association. A board of trustees consisting of seven members is elected by the members participating in the

MUNICIPAL COMMUNICATIONS UTILITY OF THE CITY OF CEDAR FALLS, IOWA  
(A Component Unit of the City of Cedar Falls, Iowa)

Notes to Financial Statements  
December 31, 2006 and 2005

Association to manage and conduct the business and affairs of the Association.

(9) Risk Management, continued

The following table sets forth summarized financial data of the Association as of and for its year ended June 30, 2006.

Cash and cash equivalents and investments	\$32,250,577
Receivables	1,368,218
Other assets	238,716
Total assets	<u>\$33,857,511</u>
Total liabilities	\$18,465,385
Total equity	<u>15,392,126</u>
Total liabilities and equity	<u>\$33,857,511</u>
Total revenues	\$6,867,019
Total expenses	2,816,878
Distribution to members	-
Net increase in equity	<u>\$4,050,141</u>

There have been no instances where the amount of settlement has exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage from coverage in the prior year.

(10) Commitments and Contingencies

As of December 31, 2006, the Utility was involved in several construction projects with an estimated cost to complete of approximately \$128,520.

(11) Subsequent Event

Effective January 1, 2007, The Board of Trustees approved a Cable TV rate increase. The average rate increase is approximately 14.9% for all Basic Plus customers and approximately 21.0% for Digital Signature customers. Cable TV advertising rates, last revised in September 2002, were also increased by approximately 33.3%.



CPAs & BUSINESS ADVISORS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Cedar Falls Utilities – Municipal Communications Utility

We have audited the financial statements of Cedar Falls Utilities – Municipal Communications Utility of Cedar Falls, Iowa (the Utility), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated April 24, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility and are reported in Part II of the accompanying Schedule of Findings. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

We noted certain matters that we reported to management of the Utility in a separate letter dated April 24, 2007.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of the Utility and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Dubuque, Iowa  
April 24, 2007

**CEDAR FALLS UTILITIES – MUNICIPAL COMMUNICATIONS UTILITY  
CEDAR FALLS, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2006**

**Part I: Summary of the Independent Auditor's Results:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Other Findings Related to Statutory Reporting:**

- II-A-06 Certified Budget - Disbursements during the year ended December 31, 2006, did not exceed the amounts budgeted.
- II-B-06 Questionable Expenditures - We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-06 Business Transactions - No business transactions between the Utility and Utility officials or employees were noted.
- II-E-06 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- II-H-06 Revenue Bonds - We noted no instances of non-compliance with the provisions of the Utility's revenue bond resolutions.
- II-I-06 Telecommunication Services - No instances of non-compliance with Chapter 388.10 of the Iowa Code were noted.

To the Board of Trustees  
Cedar Falls Utilities – Municipal Electric, Gas, Water, and Communications Utilities

---

We have audited the financial statements of Cedar Falls Utilities – Municipal Electric, Gas, Water, and Communications Utilities (the Utilities) for the year ended December 31, 2006, and have issued our report thereon dated April 24, 2007. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards***

As stated in our engagement letter dated January 29, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Utilities. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Utilities' compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Utilities are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2006. We noted no transactions entered into by the Utilities during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are unbilled service revenue and depreciation.

Management's estimate of the unbilled service revenue is based on past history and billings generated after year end. Management's estimate of depreciation is calculated on a composite straight-line method at rates based on estimated services and salvage values. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

## **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Utilities' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Utilities, either individually or in the aggregate, indicate matters that could have a significant effect on the Utilities' financial reporting process.

In addition, the attached schedule summarizes an uncorrected misstatement of the financial statements. Management has determined that its effect is immaterial to the financial statements taken as a whole.

## **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Utilities' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Utilities' auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

## **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

## Other Comments

We have included additional comments regarding the financial statements and operations. These comments are not a result of in-depth study of any specific areas but are based on observations made during the course of our audit. Our observations indicate that overall financial operations of the Utilities continue to be conducted in an efficient and effective manner.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of Cedar Falls Utilities and other parties to whom the Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to Cedar Falls Utilities.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa  
April 24, 2007

**CEDAR FALLS UTILITIES**  
**DECEMBER 31, 2006**  
**OTHER COMMENTS**

---

**Travel and Expense Reimbursement**

During our audits over the last few years, we performed reviews of expense reimbursement to employees and expenses charged to procurement cards owned by Cedar Falls Utilities. We noted several instances when employees were not following the Utilities' travel policy requiring all expenses be supported by detailed receipts. In some instances, documentation supplied for meals consisted of only a signed credit card receipt showing the total charge rather than a detail of the costs. During the audit of the year ended December 31, 2006, while there were limited instances of this, we noted substantial improvement in this area.

In this time of increased public scrutiny, it is important that a municipal entity monitor all of its expenditures to ensure that they meet the criteria of public purpose. Areas that seem to be highly susceptible to this scrutiny include things such as travel and training expenses, reimbursement for meals incurred when not traveling out-of-town, expenses incurred under the heading of employee recognition and morale, and food purchased for consumption within the place of business.

We recommend continued communication and education for all employees and board members informing them of the need to follow the existing travel and reimbursement policies. This education should stress that all documentation include the who, when, where, and why in order to document public purpose.

**New Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued five statements not yet implemented by Cedar Falls Utilities. The statements, which might impact the Utilities, are as follows:

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, will be effective for the Utilities for the year ending December 31, 2007. This statement establishes uniform financial reporting standards for other postemployment benefit (OPEB) plans and supersedes the interim guidance included in Statement No. 26. This statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the Utilities for the year ending December 31, 2008. This statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Statement No. 47, *Accounting for Termination Benefits*, issued June 2005, establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of Statement No. 45. For all other termination benefits, this statement is effective for the year ended December 31, 2006.

Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, issued September 2006, will be effective for the year ending December 31, 2007. This statement establishes standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also establishes standards that apply to all intra-entity transfers of assets and future revenues.

## **CEDAR FALLS UTILITIES**

**DECEMBER 31, 2006**

### **OTHER COMMENTS**

---

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued November 2006, will be effective for the year ending December 31, 2008. This statement establishes standards for accounting and financial reporting for obligations to address the current or potential detrimental effects of existing pollution.

The Utilities' management has not yet determined the effect these statements will have on the Utilities' financial statements.

Cedar Falls Utilities  
Communications Utility  
Adjusting entries proposed but not recorded  
as of and for the year ended December 31, 2006

	<u>Debit</u>	<u>Credit</u>
Equity at December 31, 2005	\$101,786	
Operating revenue	8,238	
Unbilled revenue receivable		\$110,024

To adjust for unbilled revenue for five days of over accrual at the end of 2006

The unbilled revenue receivable for Communications was overstated due to five too many days being accrued in each of the six cycles. In addition, the computation has included too many days in prior years. The overstatement is \$110,024 and \$101,786 at December 31, 2006 and 2005, respectively. CFU has already changed the computation method for the unbilled revenue receivable beginning in 2007.